

Operations Review

2010 saw the regional economy recovering strongly from the recessionary conditions of the prior two years, providing a significant boost to business activities and loan volumes across all our key customer segments and markets. During the year, we capitalised on various opportunities to grow our customer base and deepen our customer relationships by focusing on developing innovative products and enhancing our service delivery capabilities. With the acquisition of Bank of Singapore, we stepped up our investments towards growing our leading wealth management franchise, building on our extensive offerings across multiple product and distribution platforms to serve the diverse needs of different customer segments.

GLOBAL CONSUMER FINANCIAL SERVICES

Our global consumer banking business achieved robust loan growth of 21% in 2010, led by housing loans in Singapore and Malaysia. Fee and commission revenue also registered healthy double-digit growth, contributed by higher bancassurance, unit trust and credit card revenues. However, our interest margins were depressed by the low interest rate environment and competitive pressures, resulting in largely flat overall revenue of S\$1.15 billion for the year. Pre-tax profit fell 5% to S\$543 million, as we incurred higher staff costs and continued to invest in business expansion.

We remained a strong bancassurance player in both Singapore and Malaysia, leveraging on our strategic partnership with Great Eastern to launch new products to meet the needs of our customers in different life stages. These included the Premier Life Heritage and Max Life Legacy policies, which were Great Eastern's first Universal Life insurance policies. Universal Life policies enable effective estate planning for wealth preservation and wealth transfer, and Great Eastern was the first insurer to launch a SGD-denominated policy for the Singapore market. The strong take-up of these products by customers helped us to maintain our number one bancassurance position in Singapore, with a market share of 34%, and to double our Malaysia bancassurance sales in terms of weighted premiums.

We continued to strengthen our consumer deposit franchises in Singapore, Malaysia and China, focusing on increasing our share of low-cost deposits. In Singapore, our new OCBC Bonus+ and OCBC Premier Dividend+ savings accounts were well received by customers who were attracted to the higher interest rates and flexible deposit and withdrawal terms. Our Singapore and Malaysia savings deposits grew by 19% and 11% respectively, while we tripled our total consumer deposits in China.

Driven by the strong economic recovery and buoyant demand for residential properties, our Singapore home loans registered growth of 23%. New housing loan approvals rose significantly for both the private and HDB portfolios, although there was some

moderation in new loans in the later part of the year following the property cooling measures that were introduced by the Singapore Government. In Malaysia, our new home loan approvals grew 32%, while outstanding home loans rose 20%, exceeding the industry benchmark of 11%. With the UK pound weakening against the Singapore dollar, and the growing demand among affluent customers for overseas properties, we launched SGD- and GBP-denominated financing for residential property purchases in London.

We introduced several new card products in Singapore to meet the different lifestyle needs of our customers. The OCBC Elite World Card is targeted at high net worth individuals, providing features such as a 24-hour global concierge service and privileged access to exclusive events. We launched the first customisable Business Debit Card for SMEs, and the OCBC YES! Card that combines ATM, NETS, VISA and EZ-Link services into one debit card. Our popular Plus! and NTUC Plus! credit and debit cards for NTUC members were also enhanced with more rewards. We continued to differentiate our card offering through our sponsorships of local arts performances and by bringing in world class acts such as concerts by Jay Chou and Taylor Swift, as well as "The Lion King" musical. These sponsorships further entrenched OCBC Cards in the minds of consumers as the most attractive cards for accessing the world of arts and entertainment. These initiatives also contributed to a strong double digit growth in our Singapore credit card balances.

We continued to invest in our service and delivery channels to provide our customers with a superior and differentiated banking experience. OCBC was the first bank to launch internet banking and online stock trading across 14 global markets on the Apple iPad platform. In Singapore, we opened a new branch and Premier Banking Centre at the Nex mega-mall at Serangoon Central, bringing our domestic branch network to 57. We now have a total of 13 Premier Banking centres and 19 Sunday Banking branches in Singapore. We also increased our ATM fleet across the island by 10%.

During the year, we won several awards for product innovation and service excellence. Mastercard presented us with the Best in

Class award for the launch of the OCBC Elite World Card in the MasterCard Hall of Fame; the National Arts Council recognised us as a Distinguished Patron of the Arts for the 12th consecutive year; and 386 staff from our Consumer Financial Services unit received SPRING Singapore's Excellent Service Award for outstanding customer service. In Malaysia, we were the Bronze winner for Contact Centre of The Year 2010 in the annual Contact Centre Association of Malaysia Awards. In China, we were awarded the Best Foreign Bank Award for Wealth Products 2010 by Shanghai's *Fortune Weekly Magazine* and Best Foreign Bank Award 2010 by *Chengdu Business Daily*.

GLOBAL CORPORATE BANK

Our Global Corporate Bank's revenue increased 19% to S\$1.76 billion, led by strong growth in net interest income and significantly higher fee income from loans, cash management, trade finance and treasury activities. Coupled with a significant reduction in allowances, pre-tax profit grew 45% to S\$1.20 billion. While Singapore remained the largest revenue contributor, our overseas markets also recorded significantly higher profits as we leveraged our network to support our customers' investments across the region. Our SME customer base grew 10% on a global basis.

Our loan book expanded by 28% for the year, with contributions across all major segments and geographies. We participated in several notable corporate banking transactions in Singapore, including Singapore Press Holdings' first 5-year S\$600 million notes issuance under its S\$1 billion multi-currency medium term note programme, and a S\$636 million financing for MGP Raffle Pte Ltd. In Malaysia, we were joint lead arrangers for the issuance of the first Sukuk Wakalah (Islamic Trust Certificates) of S\$1.5 billion for Danga Capital Bhd, a subsidiary of Khazanah, a US\$310 million multi-currency facility to Sapura Crest Petroleum for an oil and gas contract, and a MYR1.15 billion facility for the largest REIT debt financing in Malaysia for Sunway City Berhad.

In Singapore, we continued to provide strong support to SMEs through participation in the government assistance schemes. OCBC was the top participating bank in these schemes with the highest number of loans disbursed. To support the regionalisation efforts of our SME customers, we organised forums on doing business in China, and led a trade mission to Chongqing and Sichuan. Through our partnership with the Sichuan Provincial Department of Commerce and the Council for Economic Planning and Development of Taiwan, our customers were able to access investment opportunities in both countries. We won the IDC Financial Insights Innovation Award 2010 for our efforts in driving innovation in our SME business, and were recognized by *The Asian Banker* as the Best SME Bank in Singapore.

In Malaysia, we launched the OCBC Al-Amin Easi-Biz Card, a Shariah-compliant ATM card for SME customers which can be used at the more than 300 ATMs operated by OCBC Bank and other Malaysia-incorporated foreign banks nationwide.

Group Transaction Banking

The customer base for Velocity@ocbc, our online cash management platform, grew by 28% in Singapore, 40% in Malaysia, and doubled in China. Our trade finance business also performed well across the Singapore, Malaysia and China markets. In particular, our Singapore trade transaction volume doubled and revenue grew 86%.

In Singapore, we launched the OCBC Business Card, the first Platinum debit card that allows SMEs to imprint their company logos and corporate titles on the face of the card, a unique feature that helps them build their own brand recognition. Expenditures incurred using the card are directly debited from the member's business account with OCBC, and at the end of the month, customers are provided with a consolidated view of their monthly transactions for easy book keeping, expense analysis and budgeting. The card also serves the customers' need for a cashless payment solution when they are overseas, offering the added convenience of ATM cash withdrawals.

We received several cash management and trade finance awards in 2010. We were recognised by *FinanceAsia* as the Best Trade Finance Bank in Singapore, and by *The Asset* as the Best Trade Finance Bank (Foreign Bank category) in Malaysia. We also received the Achievement Award for Cash Management in Singapore by *The Asian Banker*. For the third consecutive year, we were voted by large and SME companies as the Best Local Cash Management Bank in Singapore and the Best Foreign Cash Management Bank in Malaysia in the *Asiamoney's Cash Management Poll 2010*.

GLOBAL TREASURY

Treasury revenues were marginally lower at S\$807 million for 2010, mainly as a result of low interest rates and flat yield curves which impacted net interest income. Pre-tax profit fell 5% to S\$570 million as a result of higher expenses. We continued to invest in our talent pool, processes and technology infrastructure, as we strive to diversify our product capabilities and revenue streams across asset classes, activities and geographies.

OCBC continues to be recognised for its strengths in treasury product coverage, product innovation and customer service. In the *Asia Risk Corporate End User Survey 2010*, we were ranked first for SGD-, MYR- and IDR- denominated currency products as well as SGD and MYR interest rate products. We were named the Best Domestic Provider for Local Currency Products in Singapore by *AsiaMoney Polls 2010*.

GROUP INVESTMENT BANKING

OCBC topped the Bloomberg 2010 mandated arranger league table for Singapore syndicated loans, with US\$2.9 billion from 27 deals, representing a 14% market share. Notable syndicated loans arranged during the year included financings for the Sports Hub, 313@Somerset, Sun Hung Kai Properties, Parkway Holdings and PT Protelindo.

We were ranked third by market share for Singapore corporate bonds in *The Asset's Benchmark Survey 2010*. In the area of Islamic financing, we arranged the largest Singapore dollar Sukuk bond issuance in Singapore for Khazanah Nasional. We also managed bond issues for Singapore Press Holdings, SingTel, Singapore Airlines and JSC VTB Bank.

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Our Corporate Finance unit was also active in supporting our corporate customers in accessing the equity capital markets in Singapore. During the year, the team lead-managed various equity deals, raising a total of S\$240 million. Key deals included arranging the rights issues for First REIT and Dragon Group International, and sponsoring the initial public offering of Global Palm Resources, an Indonesian plantation company. We participated as co-managers in various IPO offerings by our corporate customers including Global Logistics Properties, the largest IPO for the year, Mapletree Industrial Trust and China Minzhong Food Corporation Limited.

Our Mezzanine Capital unit provides customers in Singapore, Malaysia, Indonesia and Greater China with highly customized and structured equity-linked financing solutions. One of our customers, China Minzhong Food Corporation Limited, which we have been funding for two years, was listed on the Singapore Stock Exchange in 2010. We also invested in PT Tower Bersama Infrastructure Tbk, one of the largest independent telecom towers owner in Indonesia. For the third year running, we extended interest-free loans to the winners of the Emerging Enterprise Awards, which are organized by OCBC Bank and The Business Times.

In Malaysia, we topped the Bloomberg Malaysia syndicated loan bookrunner league table with a market share of 22%. Notable transactions closed included Khazanah's S\$1.85 billion syndicated acquisition financing for Parkway Holdings, MYR 2.7 billion syndication to finance the privatisation of Astro All Asia Networks Plc, and MYR 5 billion syndication to finance the privatisation of Tanjong Plc. We also lead-arranged a US\$140 million syndication deal to finance the first coal-fired power plant in Cambodia, and US\$239 million syndicated multi-currency facilities to finance Bumi Armada's pipe-laying barge project in Turkmenistan.

OCBC MALAYSIA

Our subsidiary bank in Malaysia, OCBC Bank (Malaysia) Berhad, ranks among the largest foreign banks in the country by assets, deposits and loans, and has one of the largest branch networks of 29 conventional and 5 Islamic Banking branches. It has a long-term financial institution rating of AAA from RAM Rating Services Berhad.

OCBC Malaysia's net profit for the year increased 16% to MYR 706 million (S\$299 million), driven by broad-based growth in net interest income, Islamic Banking income and non-interest income, as well as lower allowances. Customer loans grew 10% to MYR 36 billion, led by customer demand for home loans and corporate loans as the Malaysian economy recovered from the downturn in 2009.

We launched several new products and services during the year. We were the first bank to offer equity unit trusts without up-front sales charges when we launched the Pacific ELITE funds by Pacific Mutual, the investment management subsidiary of PacificMas Berhad, in which we hold a 64% share. We were also the first bank to link up with the SME Credit Bureau (M) Sdn Bhd to enable faster and more accurate credit assessment of SMEs in the loan approval process. Another significant achievement was becoming the first foreign bank in Malaysia to offer a one-stop statutory payment service

as part of our cash management platform. Under this service, we arrange payments on behalf of our corporate customers to four statutory bodies: the Employees Provident Fund, Inland Revenue Board, Social Security Organisation and Pertubuhan Pungutan Zakat (a Muslim "alms giving" collection body).

BANK OCBC NISP

In September 2010, we announced plans to merge our two licensed bank subsidiaries in Indonesia, Bank OCBC NISP and Bank OCBC Indonesia. The objective of the merger was to better position OCBC for growth in Indonesia through a single business presence, and to reap revenue, cost and operational synergies between the two businesses. The merger was completed on 1 January 2011, with the merged entity adopting the name Bank OCBC NISP. As a result of the merger, our shareholding in Bank OCBC NISP increased from 81.9% to 85.06%, while Bank OCBC NISP's total assets increased 13.1% to IDR 50.15 trillion and its total equity rose 29% to IDR 5.8 trillion.

A one-time merger-related expense of IDR 188 billion was charged to Bank OCBC NISP's accounts in the fourth quarter. Largely as a result of this, its full year net profit fell 26% to IDR 321 billion (\$48 million). Bank OCBC NISP's loans grew by a robust 28%, and it continued to strengthen its low-cost deposit franchise, achieving 35% growth in savings deposits.

Bank OCBC NISP introduced several new products and services during the year. These included MaxTerm Payback, a term life bancassurance product; secured internet banking; and an enhancement to its multicurrency account by increasing the number of currencies from six to 11. As part of our strategy to extend our Islamic banking footprint in Indonesia, Bank OCBC NISP opened three Shariah banking branches in Jakarta, Bandung and Surabaya. Together with the additions in conventional bank branches, its total branch network increased from 382 to 409.

OCBC CHINA

Our China operations achieved revenue growth of 32% in 2010, largely driven by strong growth in deposits and loans. We doubled our total assets from CNY 17.5 billion to CNY 34 billion. Corporate loans grew 76% and our corporate customer base increased by 52%, while retail customers more than doubled. Our staff strength in China grew by more than 40% to 680.

During the year, we worked with Great Eastern Life Assurance (China) Company Ltd to introduce a more comprehensive range of financial and bancassurance products in Chengdu, and also launched a debit card for retail customers. In business banking, we grew our Renminbi cross-border trade settlement business, and continued to build up our mainland business by leveraging our extensive network across Greater China.

We were named the Best Foreign Bank in Chengdu by the *Chengdu Business Daily* newspaper for the second consecutive year. We also received the Corporate Social Responsibility Award by the *National Business Daily*, in recognition of our continuing corporate social responsibility efforts in China. These included the setting up of

the Soong Ching Ling Scholarship ("SCLS") under the SCLS-OCBC Fund, the rebuilding of the Shihe Primary School in Mianzhu county, Sichuan province, and our regular staff volunteer projects with Kangqiao School and Ziluolan School in Shanghai.

We continued to expand our footprint in China with the opening of a new retail sub-branch in Gubei, Shanghai, bringing our China network to a total of 13 main and sub-branches in 7 major cities. We also obtained regulatory approval to open a new branch in Qingdao, Northeast China, in the first quarter of 2011.

BANK OF SINGAPORE

We completed the acquisition of ING Asia Private Bank on 29 January 2010, and combined the businesses of ING Asia Private Bank and OCBC Private Bank under the wholly-owned subsidiary and new brand, Bank of Singapore.

Bank of Singapore is the only dedicated private bank headquartered in Singapore. It adopts a global private banking approach, offering customers a comprehensive range of products and services on a fully open architecture platform, supported by strong proprietary research and independent advice. It also leverages on OCBC's extensive regional network and expertise in mortgage financing, retail, commercial and investment banking, stockbroking, insurance and investment management.

A year-long global advertising campaign has been successful in building brand recognition of Bank of Singapore, helping retain existing customers and attract new customers, as well as enhancing its ability to bring in new relationship managers and product specialists from leading global private banks. More than 200 new staff were hired during the year, including 60 relationship managers, bringing its total staff strength to more than 750. Its product and research team of more than 80 specialists includes one of the largest teams in Asia providing research, advice and support for investment products originated in emerging markets. In addition to growing its talent pool, incentives were put in place to encourage cross-sell and referral between OCBC Bank and Bank of Singapore, with good results achieved in the areas of property and business financing, insurance sales, brokerage and treasury transactions, and customer acquisition.

Over the year, Bank of Singapore's assets under management grew 18% to US\$26 billion, and its earning asset base, which includes loans, increased 20% to US\$32 billion. In addition to growth in its existing major markets of South East Asia, the Philippines, Greater China and the non-resident Indian market, Bank of Singapore also increased its assets from customers based in Europe and the Middle East, markets which were previously under the purview of a separate unit under the ING organisation.

Assets under discretionary portfolio management registered strong growth of 60% as more customer mandates were secured during the year. Bank of Singapore achieved strong performance for its clients' portfolios, beating industry benchmarks. This was the result of a disciplined investment process that seeks to consistently deliver superior returns over an investment cycle.

During the year, Bank of Singapore won recognition as the Best Private Bank in Singapore by *FinanceAsia*, the Best Private Wealth Management Bank in Singapore and South East Asia by *Alpha Southeast Asia*, and the Best Private Bank for Relationship Management and the Best Private Bank for Range of Investment Products in Philippines by *Euromoney*.

GREAT EASTERN HOLDINGS

Great Eastern Holdings' overall results in 2010 were healthy, underpinned by strong growth in underwriting profits and new business sales, and higher long term profitability as measured by new business embedded value. Total weighted new business premiums for the year rose 20% to S\$724 million, driven by 34% growth in regular premium products. New business embedded value grew 30% to S\$305 million, reflecting the success of Great Eastern's strategy to achieve higher sales of regular premium and protection products. Reported net profit for the year fell a marginal 2% to S\$507 million, as the previous year's results had benefited from a strong recovery in equity and bond markets from the lows of the global financial crisis.

More details on Great Eastern's financials and business operations can be found in its published annual report.

PARTNER BANKS

Bank of Ningbo, China

OCBC subscribed for approximately 146 million new shares in Bank of Ningbo ("BON") as part of a private placement exercise first announced in late 2009. As a result, our strategic equity stake in BON increased from 10% to 13.7%. During the year, we continued to deepen our collaboration with BON in the areas of product development, risk management, information technology and talent development.

BON reported a strong set of financial results, with net profits in 2010 surging 59% to CNY 2,324 million (S\$467 million). Customer loans grew 24%, driven by healthy loan demand and BON's rapid business expansion in key cities in China. Its nationwide network increased from 88 to 110 branches and sub-branches, covering the cities of Ningbo, Suzhou, Shanghai, Hangzhou, Nanjing, Shenzhen, Wenzhou and Beijing.

VP Bank, Vietnam

VP Bank changed its name from Vietnam Joint Stock Commercial Bank for Private Enterprises to Vietnam Prosperity Joint Stock Commercial Bank, following a change in its shareholding structure. OCBC subscribed for approximately 23 million new shares in VP Bank in a rights issue exercise, maintaining our stake at 15%. VP Bank has a network of 150 branches and offices in Ho Chi Minh City and Hanoi.

GROUP OPERATIONS & TECHNOLOGY

In 2010, Group Operations and Technology division achieved productivity gains of more than 13% across 15 processing centres in Singapore and Malaysia, as well as an average unit cost reduction of 2%.

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We completed another 38 process re-engineering projects during the year. In Singapore, we streamlined the online account opening process for retail customers, reducing approval cycle time from 5 days to 1 hour. The processing time for insurance policies tied to housing loans, commercial property loans and equipment & machinery loans was also reduced from 32 days to 14 days. In Malaysia, we were able to extend the cut-off time for remittances from 2 pm to 3 pm by centralising the processing activities at OCBC Malaysia's head office in Kuala Lumpur. As a result of our ongoing efforts in driving quality improvements, service excellence and productivity, our Payment & E-Banking Operations unit received the SPRING Singapore Quality Class certification.

We continued to execute our IT architecture and long-term system application road map, and strengthened our service management and project delivery capabilities. Key technology projects completed during the year included the following:

- Automation of end-to-end electronic credit workflow processing to shorten turnaround times for SME loan approval
- Deployment of consolidated monthly statements for retail deposit account and credit card transactions, which can be downloaded electronically via the internet
- Enhancement of our treasury system to provide a single view of all foreign exchange and money market trading activities, facilitating better risk and liquidity management
- Deployment of the top-up service feature for prepaid phone cards at our self-service channels

GROUP QUALITY & SERVICE EXCELLENCE GROUP CUSTOMER EXPERIENCE

Over the years, we have worked relentlessly to differentiate OCBC from our competitors by focusing on two aspects of service excellence – Quality and Customer Experience. In 2010, a dedicated Group Customer Experience division was established to drive initiatives to embed customer experience discipline and management into the designs of our products, services and customer touchpoints, and to build a strong customer-focused culture in both customer-facing and support functions. The division worked on more than 12 projects during the year.

Our Quality efforts are based on the Six Sigma methodology. We have been instilling this rigorous methodology in our processes, and we continue to inculcate a Six Sigma Quality Excellence mindset in our employees. In 2010, we trained more than 100 new Quality Leaders to drive quality and process improvements across OCBC. We also executed 15 cross-functional process transformation projects in Singapore, Malaysia and Indonesia, achieving encouraging results and estimated margin improvements of S\$27 million.

We have also established a Group Product Suitability Committee to review investment products and ensure they are suitable for our customers. Approved investment products are classified using a multi-dimensional structured framework to ensure they are aligned with the financial objectives and risk profiles of specific customer

segments. All advertising and marketing materials for investment products are also reviewed to ensure that clear, relevant and timely information is provided for customers to make informed decisions.

In 2010, 499 of our employees across various divisions received the annual SPRING Singapore and the Association of Banks Excellent Service Awards in the Gold, Silver and Star categories. This was a 50% increase from the 336 employees who received the awards in 2009.

OCBC PROPERTY MANAGEMENT

Our office and residential properties, which are held for own-use and investment purposes, achieved full or near full occupancy in 2010. These properties aggregate to approximately two million square feet of net lettable area.

We appointed United Engineers Limited to redevelop our former Specialists' Shopping Centre and Hotel Phoenix site at Orchard Road. Construction work is expected to be completed by 2013 for the shopping mall, and by 2014 for the hotel.

GROUP HUMAN RESOURCES

Our Group staff strength, including Bank of Singapore, Bank OCBC NISP and Great Eastern Holdings, increased 10% to 21,585, of which Bank of Singapore contributed more than 750. Most of the hires by OCBC in 2010 were in Malaysia and China.

Employee engagement and development remained a key focus in our human resource management. In 2010, we increased our training-related expenditure by 10%. Our e-learning infrastructure was also enhanced to extend the training to employees across different geographies. The average man-days of training per employee was maintained at above seven days for the fifth consecutive year, exceeding our target of five days. To provide employees with more career development opportunities across the Group, our internal Job Application Program, which is very popular among our employees, was extended to include career opportunities in Bank of Singapore, Great Eastern and Lion Global Investors.

Another on-site childcare centre, operated by NTUC's Little Skool House International, was set up at our Tampines offices in Singapore to cater to our employees' childcare needs.

Our employee engagement score improved by 5 percentage points in 2010, marking the eighth year of consecutive improvement. OCBC's score is now within Hewitt's High Performance/Best Employer Range, and above the Global Financial Norm engagement score. Our employee share ownership schemes continued to receive high participation bankwide; 60% of bank employees were OCBC shareholders (including share options and deferred shares) at the end of 2010, well above our target of 30%.