"Over the past decade, we expanded our regional footprint and wealth management businesses significantly with major acquisitions. The improvements that we made in systems and processes, particularly in risk management, the organisational changes, and the emphasis on employee engagement, product innovation and quality and service excellence have not only eased our passage through some difficult periods, but have also firmly established us as a major regional financial services provider, one of the two largest banks in Southeast Asia by market capitalisation."

Financial services firms in the US and Europe faced a challenging operating environment in 2011 and banks in Asia were not unaffected. Optimism for a continuing economic recovery in the early part of the year was replaced by fears of a widespread slowdown arising from a confluence of concerns over US fiscal problems, sovereign indebtedness in Europe and a possible hard landing in China. These factors caused significant volatility in the global financial markets. Asia saw economic growth moderating in many countries after the sharp recovery in 2010. GDP growth in Singapore was 4.9%, significantly lower than 14.5% in the previous year, while the Malaysian economy grew by 5.1%, a slower pace than the 7.2% of a year ago. China's economy expanded by 9.2%, also slower than the 10.3% seen in 2010. Our other key market, Indonesia, achieved healthy economic growth of 6.5%, up from 6.1% a year ago, as its domestic-oriented economy remained relatively resilient.

PERFORMANCE REVIEW

Despite volatile global financial markets, our customer franchise continued to show healthy growth in 2011 and the Group delivered a solid set of results. We achieved broad-based loan growth, strong increase in our fee income and continued growth in our life insurance business.

For the full year, our Group net profit grew 3% to S$2,312 million. Minus the gain from the divestment of a non-core property in Singapore, our core net profit was S$2,280 million, compared with S$2,253 million in 2010. Based on core earnings, our return on equity was 11.1%, compared with 12.1% in the previous year. Earnings per share was 64.8 cents, a decrease from 66.1 cents in 2010, reflecting the strong acceptance of our scrip dividend offers over the past few years.

Net interest income grew 16% to a new record of S$3,410 million, contributed by strong growth in interest-earning assets. Our net interest margin declined by 12 basis points to 1.86%, primarily due to the low interest rate environment and solid growth in lower-risk loans. Loans were up 27% for the year, with broad-based contributions from both the corporate and consumer customer segments across our key markets.

Non-interest income of S$2,212 million (excluding the above-mentioned divestment gain) was 7% lower than the previous year, as robust growth in our customer-related income was offset by the adverse impact of volatile financial markets on trading income and life insurance profits. Fee and commission income grew 16% to a record S$1,137 million, contributed mainly by wealth management income and trade-related fees. Treasury income from customer flows grew 48% to S$324 million, as we continued to develop innovative products and increased cross-selling of products. Trading income declined 46% to S$217 million, and life insurance profits declined 13% to S$383 million, both resulting from challenging financial market conditions.

Operating expenses were well-managed, increasing 8% to S$2,430 million. We expanded our staff strength by 6% to support the expansion of our franchise; the balance of the cost increase was largely attributable to salary increments and higher costs associated with increased business volumes.

Our asset quality remained healthy, as reflected by our non-performing loans ("NPL") ratio, which was flat at 0.9% year-on-year. Our total non-performing assets ("NPA", which include assets other than loans) increased S$229 million to S$1,437 million. The increase in NPAs was mainly for substandard accounts which are well-collateralised. Net allowances increased from S$134 million to S$221 million despite gross specific allowances declining 23% from the prior year. This was largely attributable to higher portfolio allowances in line with loan growth, and lower recoveries and write-backs.

We continued to maintain a strong capital position, with Tier 1 and total capital adequacy ratios of 14.4% and 15.7%, respectively, as of 31 December 2011. These ratios were well above the regulatory minimum of 6% and 10% respectively. Our Core Tier 1 ratio, the computation of which excluded Tier 1 preference shares, was 11.4%.

Customer businesses in our key subsidiaries continued their healthy growth. Great Eastern Holdings ("GEH") achieved 10% growth in new business weighted premiums and 20% growth in new business embedded value. The results reflected strong sales growth across markets, with solid contributions from both the bancassurance and agency channels, as well as GEH's focus on sales of regular premium and protection-based products. GEH's net profit contribution to the Group, however, was lower at S$297 million in 2011, down from S$405 million in 2010, as a result of mark-to-market losses in the Non-participating Fund.

OCBC Bank (Malaysia) Berhad reported 6% growth in full year net profit to MYR749 million (S$307 million). Revenue growth was achieved in all areas - net interest income, Islamic finance income and non-interest income. Expenses increased 14% as we expanded our branch network and upgraded our capabilities and systems. Loan growth of 20% was broad-based across industry sectors, and the NPL ratio improved to 2.6% from 2.8%.

Bank OCBC NISP's net profit increased 80% to IDR753 billion (S$108 million) for 2011, boosted by synergies from the merger with Bank OCBC Indonesia. Net interest income grew 13% year-on-year with robust loan growth of 31%, while non-interest income grew 16%. Overall revenue growth was underpinned by the broader market coverage of the merged entity, improved product capabilities and stronger collaboration with other subsidiaries within the Group. If the one-time merger expense of IDR204 billion (S$31 million) in 2010 was excluded, expenses would have risen by 23% in 2011. Asset quality improved, with the NPL ratio dropping to 1.3% from 2.0% a year ago.

Bank of Singapore ended the year with assets under management of US$32 billion (S$41 billion), an increase of 19% year-on-year. Bank of Singapore's earning asset base, which included loans, grew 23% to US$40 billion (S$52 billion). Strong net inflow of fresh funds was broad-based across Bank of Singapore's major markets of Southeast Asia, Greater China and customers from the Indian Sub-continent. Headcount increased 20% in 2011 as we expanded our team of relationship managers to meet the rapidly growing demand for private banking services in Asia.

DIVIDENDS

The Board has recommended a final tax-exempt dividend of 15 cents per share, bringing the full year 2011 total dividend to 30 cents per share, unchanged from 2010. The dividend payout represents 45% of core earnings, which meets our targeted payout ratio.

PROGRESS AGAINST NEW HORIZONS III STRATEGY

We launched our New Horizons III strategy in 2011. Progress of the new strategy had been good with tangible achievements to show in each of the main pillars:

Balanced Business Scorecard

We grew our customer base strongly across all segments – retail, high net worth, corporates and SMEs – by continuing to leverage on customer insights in designing better products and delivering a differentiated experience for customers. Our innovation index, measured by the ratio of revenues from new products to total revenues, rose to 8% from 6% in the previous year. We retained our focus in strengthening our risk management capabilities, particularly in support of our expansion overseas. At a time when many depositors and investors worldwide were concerned about the financial soundness of banks, we were pleased to receive industry recognition with a credit rating upgrade by S&P to AA- from A+, and by being named the World's Strongest Bank (Bloomberg Markets) and the 25th safest bank globally (Global Finance).

Customer Experience

We continued to build our capabilities in the areas of market research, experience design and customer service. To improve our customers' experience in their dealings with us, we revamped our written communications in several areas, simplifying documents for ease of comprehension. We launched our new on-line banking platform, which provided a user-friendly and jargon-free interface for customers, introduced a paperless account opening process in the branches, and reduced the cycle time for processing and disbursement of various loans to customers. To position ourselves with the Gen-Y customer segment, we launched a new banking experience – "FRANK by OCBC", which was designed around the needs and preferences of youths and young adults.

Deeper Presence in Malaysia, Indonesia and Greater China

Outside Singapore, we continued to expand our distribution network and capabilities in Malaysia by adding two branches and increasing our Emerging Business and Bumiputra sales force in order to take market share. In Indonesia, we completed the merger between Bank OCBC Indonesia and Bank OCBC NISP, and the resulting operational synergies have improved the bottom-line. OCBC NISP has also rolled out their Emerging Business Model nationwide after seeing strong results from the implementation in Jakarta and other key metro-cities. In China, we expanded our branch and sub-branch network to 16, and now serve customers in eight cities across the country. We have recently received approval to commence preparation for a new branch in a ninth city, Shaoxing, located in Zhejiang Province. We have further tightened the coordination between our businesses across Greater China, including Hong Kong and Taiwan, to effectively capitalise on the emerging opportunities in the region.

Leveraging Group Synergies

Our unique combination of geographic footprint and business capabilities offers us the opportunity to further harness the potential synergies among various entities across the Group. This enables us to deepen as well as widen our relationships with customers, and further differentiates OCBC from our competitors. During the year, we achieved good momentum in cross-selling between Group entities. There was greater focus on serving the needs of network customers and providing them with a seamless customer experience across geographies and business divisions. We also enhanced operational efficiencies across our footprint through the alignment of risk and compliance processes and capabilities, and further rationalised our common infrastructure and shared services. To facilitate cross-fertilisation across businesses and geographies, we offered more career opportunities to talented individuals across the Group.

LEADERSHIP TRANSITION

After a distinguished career in banking, including 10 years in the OCBC Group, David Conner will be stepping down as CEO in April 2012. Samuel Tsien, currently Senior Executive Vice-President and Global Head, Global Corporate Bank, will succeed him as CEO.

Under David's leadership, we expanded our regional footprint and wealth management businesses significantly with major acquisitions. Over the past decade the improvements that we made in systems and processes, particularly in risk management, the organisational changes, and the emphasis on employee engagement, product innovation and quality and service excellence have not only eased our passage through some difficult periods, but have also firmly established us as a major regional financial services provider, one of the two largest banks in Southeast Asia by market capitalisation.

The appointment of Sam to succeed David as CEO underscores the Group's emphasis on executive development and succession planning. Having been a key member of the team that developed our New Horizons III strategy, Sam is firmly committed to executing it successfully and we are confident that our regional franchise will continue to grow with Sam as CEO.

LOOKING AHEAD

The operating environment is expected to remain challenging in 2012, with the global economy likely to decelerate further. The European sovereign debt crisis and sub-par growth in the US may further dampen Asian markets. Growth in our key markets is expected to be slower: Singapore is expected to grow at 1-3%, while Malaysia and Indonesia are expected to grow at rates of 4-6% and 6-7%, respectively. The Chinese economy is forecast to grow at a slower rate of 7-8%.

Nonetheless, we continue to see opportunities to invest in our network, and leverage synergies across the Group to better serve our customers.

ACKNOWLEDGEMENTS

The Board extends a warm welcome to Dr Teh Kok Peng, formerly the President of GIC Special Investments Pte Ltd, who joined us in August 2011 as an Independent Director. We also welcome Dato' Ooi Sang Kuang, former Deputy Governor and a member of the Board of Directors of Bank Negara Malaysia, and Mr Quah Wee Ghee, former Managing Director and President of GIC Asset Management Pte Ltd. Both gentlemen joined the Board in the first quarter of 2012.

We wish to thank our other fellow Board members for their consistent support, counsel and guidance. We acknowledge and commend our staff for their dedication and contribution in bringing the Group to where it is today. We would also like to express our gratitude to our shareholders and customers for their unwavering support.

Mr Patrick Yeoh Khwai Hoh, who has served on the Board of Directors for 10 years, has indicated that he does not wish to seek re-election at the 2012 Annual General Meeting. We thank him for his invaluable contributions during his term of office.

CHEONG CHOONG KONG
Chairman

17 February 2012

DAVID CONNER
Chief Executive Officer