Management Discussion and Analysis

OVERVIEW

	2009	2008	+/(-) %
Selected Income Statement Items (S$ million)			
Net interest income	**2,825**	2,783	2
Non-interest income	**1,990**	1,458	37
Total core income	**4,815**	4,241	14
Operating expenses	**(1,796)**	(1,854)	(3)
Operating profit before allowances and amortisation	**3,019**	2,387	26
Amortisation of intangible assets	**(47)**	(47)	–
Allowances for loans and impairment of other assets	**(429)**	(447)	(4)
Operating profit after allowances and amortisation	**2,543**	1,893	34
Share of results of associates and joint ventures	**(#)**	6	(101)
Profit before income tax	**2,543**	1,899	34
Core net profit attributable to shareholders	**1,962**	1,486	32
Divestment gains, net of tax	**–**	174	–
Tax refunds	**–**	89	–
Reported net profit attributable to shareholders	**1,962**	1,749	12
Cash basis net profit attributable to shareholders (1)	**2,009**	1,796	12
Selected Balance Sheet Items (S$ million)			
Ordinary equity	**17,075**	13,978	22
Total equity (excluding minority interests)	**18,971**	15,874	20
Total assets	**194,300**	181,385	7
Assets excluding life assurance fund investment assets	**151,223**	142,508	6
Loans and bills receivable (net of allowances)	**80,876**	79,808	1
Deposits of non-bank customers	**100,633**	94,078	7
Per Ordinary Share – based on core earnings			
Basic earnings (cents) (2)	**59.4**	46.1	29
Basic earnings – Cash basis (cents) (2)	**60.9**	47.6	28
Diluted earnings (cents) (2)	**59.3**	45.9	29
Net asset value – Before valuation surplus (S$)	**5.29**	4.51	17
Net asset value – After valuation surplus (S$)	**6.33**	5.18	22
Key Financial Ratios – based on core earnings (%)			
Return on equity (2)(3)	**12.2**	9.9	
Return on equity – Cash basis (2)(3)	**12.5**	10.3	
Return on assets (4)	**1.35**	1.05	
Return on assets – Cash basis (4)	**1.38**	1.08	
Net interest margin	**2.23**	2.27	
Non-interest income to total income	**41.3**	34.4	
Cost to income	**37.3**	43.7	
Loans to deposits	**80.4**	84.8	
NPL ratio	**1.7**	1.5	
Total capital adequacy ratio	**16.4**	15.1	
Tier 1 ratio	**15.9**	14.9	

(1) Excludes amortisation of intangible assets.

(2) In computing earnings per share and return on equity, preference dividends paid and estimated to be due as at the end of the financial period are deducted from core earnings.

(3) Preference equity and minority interests are not included in the computation for return on equity.

(4) The computation for return on assets does not include life assurance fund investment assets.

"#" represents amounts less than S$0.5 million.

Management Discussion and Analysis

For the financial year ended 31 December 2009, Group net profit grew by 12% to S$1,962 million, from S$1,749 million in 2008. Growth in terms of core earnings was significantly higher at 32%, after adjusting for the one-off divestment gains and tax refunds of S$263 million in the 2008 reported earnings. Growth in 2009 was driven by higher insurance and trading income, lower expenses and stable credit costs.

Operating profit before allowances increased 26% to S$3,019 million. Net interest income grew 2% to S$2,825 million, led by growth in interest earning assets. Loans grew by 1% for the year, while net interest margin narrowed from 2.27% to 2.23%. Non-interest income rose 37% to S$1,990 million, underpinned by a recovery in insurance income and strong trading results. Operating expenses fell 3% to S$1,796 million as a result of tight management of costs. Net allowances for loans and other assets were S$429 million, slightly lower than the S$447 million in 2008. The Group's non-performing loans ("NPL") ratio peaked in the second quarter of 2009, and improved to 1.7% by the end of the year, compared to 1.5% at the end of 2008.

Return on equity, based on core earnings, improved to 12.2% in 2009, from 9.9% in 2008. Core earnings per share for the year rose 29% to 59.4 cents.

Insurance subsidiary Great Eastern Holdings ("GEH") reported a 90% rise in its net profit for the year to S$517 million, driven by an increase in profit from insurance operations, mainly from the Non-Participating and Investment-linked Fund as a result of improving market conditions during the year. While its life assurance weighted new sales fell 20% during the year, sales recovered strongly in the second half, registering a growth of 50% compared to the first half. GEH's contribution to the Group's core earnings, after deducting amortisation of intangible assets, non-core gains and minority interests, was S$412 million (21% of Group core earnings), up from S$160 million (11%) in 2008.

OCBC Bank (Malaysia) Berhad's operating profit before allowances 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 higher recoveries and writebacks. Its loans grew by 5% for the year, and its NPL ratio was largely unchanged at 3.8%.

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 as a result of assets growth and improved interest margins. Its loans grew by 5%, and its NPL ratio increased from 2.7% to 3.2%.

A final tax-exempt dividend of 14 cents per share has been proposed, bringing the full year 2009 dividend to 28 cents per share, unchanged from 2008. The dividend payout of 46% of core earnings is in line with the Group's target minimum of 45%. The Scrip Dividend Scheme will be applicable to the final dividend, with the issue price for the new shares (in lieu of cash dividend) to be set at a 10% discount to the reference share price.

Management Discussion and Analysis

NET INTEREST INCOME

Average Balance Sheet

	2009			2008		
	Average Balance S$ million	Interest S$ million	Average Rate %	Average Balance S$ million	Interest S$ million	Average Rate %
Interest earning assets						
Loans and advances to non-bank customers	**78,056**	**3,043**	**3.90**	76,610	3,651	4.77
Placements with and loans to banks	**23,450**	**432**	**1.84**	23,762	780	3.28
Other interest earning assets [(1)]	**25,055**	**714**	**2.85**	22,422	836	3.73
Total	**126,561**	**4,189**	**3.31**	122,794	5,267	4.29
Interest bearing liabilities						
Deposits of non-bank customers	**95,905**	**1,036**	**1.08**	93,554	1,815	1.94
Deposits and balances of banks	**11,777**	**96**	**0.82**	13,951	430	3.08
Other borrowings [(2)]	**7,204**	**232**	**3.22**	6,420	239	3.72
Total	**114,886**	**1,364**	**1.19**	113,925	2,484	2.18
Net interest income/margin [(3)]		**2,825**	**2.23**		2,783	2.27

(1) Comprise corporate debts 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 rose 2% to S$2,825 million in 2009, contributed by a 3% growth in average interest-earning assets, which was partially offset by a narrowing in net interest margin from 2.27% to 2.23%. Loans edged up 1% for the year, with a 5% increase during the fourth quarter helping to compensate for the decline during the first nine months. After reaching a multi-year high of 2.47% in the fourth quarter of 2008, net interest margin had declined steadily in 2009, mainly as a result of lower gapping income and the effects of a sustained low interest rate environment on the average asset yields.

Volume and Rate Analysis

Increase/(decrease) for 2009 over 2008	Volume S$ million	Rate S$ million	Net change S$ million
Interest income			
Loans and advances to non-bank customers	69	(667)	(598)
Placements with and loans to banks	(10)	(336)	(346)
Other interest earning assets	98	(217)	(119)
Total	157	(1,220)	(1,063)
Interest expense			
Deposits of non-bank customers	45	(820)	(775)
Deposits and balances of banks	(67)	(266)	(333)
Other borrowings	30	(35)	(5)
Total	8	(1,121)	(1,113)
Impact on net interest income	149	(99)	50
Due to change in number of days			(8)
Net interest income			42

Management Discussion and Analysis

NON-INTEREST INCOME

	2009 S$ million	2008 S$ million	+/(-) %
Fees and commissions			
Brokerage	**96**	74	30
Wealth management	**65**	132	(51)
Fund management	**70**	79	(11)
Credit card	**45**	55	(18)
Loan-related	**172**	153	13
Trade-related and remittances	**124**	129	(4)
Guarantees	**23**	27	(15)
Investment banking	**54**	51	6
Service charges	**53**	50	5
Others	**28**	24	15
Sub-total	**730**	774	(6)
Dividends	**57**	72	(21)
Rental income	**78**	68	14
Profit from life assurance [(1)]	**727**	300	142
Premium income from general insurance	**122**	109	12
Other income			
Net trading income	**344**	43	709
Net gain/(loss) from investment securities	**50**	18	176
Net gain from disposal of properties	**8**	8	6
Loss from redemption of GLC [(2)] units	**(213)**	–	–
Others	**87**	66	30
Sub-total	**276**	135	104
Total core non-interest income	**1,990**	1,458	37
Divestment gains	**–**	186	–
Total non-interest income	**1,990**	1,644	21
Fees and commissions/Total income [(3)]	**15.2%**	18.2%	
Non-interest income/Total income [(3)]	**41.3%**	34.4%	

(1) 2009 life assurance profit includes non-recurring gains of S$201 million.
(2) GLC refers to the GreatLink Choice insurance policy units.
(3) Excludes divestment gains.

Non-interest income rose 37% (excluding the divestment gains in 2008) to S$1,990 million, driven by higher insurance profits and strong trading results.

Profit from life assurance rose from S$300 million to S$727 million, contributed by higher investment profits from GEH's Non-Participating Fund as a result of the tightening of credit spreads and recovery in equity markets. The life assurance profit for 2009 also included non-recurring gains of S$201 million arising from the adoption of the new Risk Based Capital framework in Malaysia and an exercise to achieve better portfolio matching of assets and liabilities in Singapore. This gain was largely offset by a non-recurring loss of S$213 million (classified under "other income") resulting from the redemption offer of GreatLink Choice ("GLC") policies by GEH. The two non-recurring items combined had no significant impact on the Group's non-interest income, and on earnings contribution from GEH, for the full year.

Net trading income recovered strongly from S$43 million in 2008 to S$344 million in 2009, led by gains in foreign exchange income and securities trading as market conditions improved. Fee and commission income fell 6% to S$730 million, as higher stockbroking and loan-related income was more than offset by declines in wealth management, credit card and fund management income.

Management Discussion and Analysis

OPERATING EXPENSES

	2009 S$ million	2008 S$ million	+/(-) %
Staff costs			
Salaries and other costs	**910**	953	(5)
Share-based expenses	**9**	13	(28)
Contribution to defined contribution plans	**76**	79	(3)
	995	1,045	(5)
Property and equipment			
Depreciation	**135**	116	17
Maintenance and hire of property, plant & equipment	**62**	68	(10)
Rental expenses	**46**	43	8
Others	**106**	113	(6)
	349	340	3
Other operating expenses	**452**	469	(4)
Total operating expenses	**1,796**	1,854	(3)
Group staff strength			
Period end	**19,561**	19,876	(2)
Average	**19,478**	19,541	–
Cost to income ratio (1)	**37.3%**	43.7%	

(1) Excludes divestment gains.

Operating expenses for the year declined by 3% to S$1,796 million as the Group maintained a disciplined approach to cost control. Staff costs fell 5%, contributed by lower recruitment costs and commission allowances, tighter control on headcount, and the cash grants received from the Singapore government's Jobs Credit Scheme. Other operating expenses declined by 4% as travel, accommodation, communication and stationery costs were lower.

The cost-to-income ratio was 37.3% for 2009, down from 43.7% in 2008.

ALLOWANCES FOR LOANS AND OTHER ASSETS

	2009 S$ million	2008 S$ million	+/(-) %
Specific allowances for loans			
Singapore	**63**	2	n.m.
Malaysia	**62**	40	56
Others	**116**	123	(5)
	241	165	47
Portfolio allowances for loans	**23**	20	13
Allowances for CDOs	**86**	87	(1)
Allowances and impairment for other assets	**79**	175	(55)
Allowances for loans and impairment of other assets	**429**	447	(4)

"n.m." denotes not meaningful.

Allowances for loans and other assets were 4% lower at S$429 million compared to S$447 million in 2008. The decline was mainly due to lower allowances for debt securities and other assets, which fell from S$175 million to S$79 million.

Specific allowances for loans increased from S$165 million to S$241 million, or from 21 basis points of loans to 29 basis points, as higher allowances were made for new NPLs while write-backs and recoveries were lower compared to 2008. By geography, the net increase was mainly from Singapore and Malaysia.

Portfolio allowances increased from S$20 million to S$23 million, while allowances of S$86 million for CDOs (collateralised debt obligations) were similar to the level in 2008. The Bank's CDO portfolio has been fully provided for since the first quarter of 2009.

Management Discussion and Analysis

LOANS AND ADVANCES

	2009 S$ million	2008 S$ million	+/(-) %
By Industry			
Agriculture, mining and quarrying	**1,621**	1,315	23
Manufacturing	**5,828**	6,612	(12)
Building and construction	**15,643**	17,176	(9)
Housing loans	**21,460**	19,785	9
General commerce	**7,750**	7,072	10
Transport, storage and communication	**5,791**	5,471	6
Financial institutions, investment and holding companies	**10,032**	11,201	(10)
Professionals and individuals	**7,968**	7,358	8
Others	**6,248**	5,346	17
	82,341	81,336	1
By Currency			
Singapore Dollar	**46,022**	47,174	(2)
United States Dollar	**11,081**	10,671	4
Malaysian Ringgit	**13,239**	12,220	8
Indonesian Rupiah	**2,889**	2,269	27
Others	**9,110**	9,002	1
	82,341	81,336	1
By Geography [1]			
Singapore	**48,457**	49,285	(2)
Malaysia	**15,322**	14,335	7
Other ASEAN	**4,986**	4,602	8
Greater China	**7,066**	6,874	3
Other Asia Pacific	**3,926**	3,242	21
Rest of the World	**2,584**	2,998	(14)
	82,341	81,336	1

[1] Loans by geography are based on where the credit risks reside, regardless of where the transactions are booked.

Gross customer loans rose 1% from a year ago to S$82.3 billion as at 31 December 2009. By sector, the growth was mainly from lending to the housing, general commerce and transport sectors, offset partly by decline in loans to the building and construction and manufacturing sectors, and to financial institutions, investment and holding companies.

Management Discussion and Analysis

NON-PERFORMING ASSETS

	Total NPAs [1][2] S$ million	Substandard S$ million	Doubtful S$ million	Secured NPAs/ Total Loss S$ million	NPAs %	NPLs [3] S$ million	NPL Ratio [3] %
Singapore							
2009	**417**	**163**	**164**	**90**	**65.2**	**417**	**0.9**
2008	395	107	184	104	58.1	394	0.8
Malaysia							
2009	**635**	**427**	**155**	**53**	**61.1**	**614**	**4.0**
2008	496	290	121	85	59.2	474	3.3
Other ASEAN							
2009	**213**	**95**	**23**	**95**	**59.9**	**212**	**4.3**
2008	127	33	28	66	58.8	123	2.7
Greater China							
2009	**69**	**13**	**56**	**–**	**19.9**	**67**	**0.9**
2008	63	8	55	#	12.9	63	0.9
Other Asia Pacific							
2009	**47**	**40**	**7**	**–**	**51.8**	**47**	**1.2**
2008	95	16	79	–	13.4	95	2.9
Rest of the World [2]							
2009	**67**	**18**	**46**	**3**	**40.3**	**60**	**2.3**
2008	172	17	148	7	15.2	33	1.1
Group							
2009	**1,448**	**756**	**451**	**241**	**58.9**	**1,417**	**1.7**
2008	1,348	471	615	262	47.8	1,182	1.5

(1) Comprise non-bank loans, debt securities and contingent liabilities.
(2) Includes CDOs of S$7 million for 2009 and S$109 million for 2008.
(3) Excludes debt securities.
"#" represents amounts less than S$0.5 million.

Non-performing loans were S$1,417 million as at 31 December 2009, 20% higher than a year ago. By geography, the increase was mainly from Malaysia, Indonesia and Rest of the World.

The Group's NPL ratio peaked in June 2009 at 2.1%, improving to 1.7% at year-end, which was slightly higher than the 1.5% at end-2008. The Singapore NPL ratio rose from 0.8% to 0.9% during the year, while the Malaysia NPL ratio increased from 3.3% to 4.0%. By industry, NPL ratios remained highest for the manufacturing and general commerce sectors, at 6.9% and 2.8% respectively.

Including classified debt securities and CDOs, the Group's total non-performing assets ("NPAs") increased 7% to S$1,448 million. Of the total NPAs, 52% were in the substandard category while 59% were secured by collateral.

Management Discussion and Analysis

NON-PERFORMING ASSETS (continued)

	2009 S$ million	2009 % of gross loans	2008 S$ million	2008 % of gross loans
NPLs by Industry				
Loans and advances				
Agriculture, mining and quarrying	**13**	**0.8**	6	0.5
Manufacturing	**402**	**6.9**	339	5.1
Building and construction	**234**	**1.5**	113	0.7
Housing loans	**224**	**1.0**	243	1.2
General commerce	**220**	**2.8**	147	2.1
Transport, storage and communication	**109**	**1.9**	24	0.4
Financial institutions, investment and holding companies	**38**	**0.4**	125	1.1
Professionals and individuals	**140**	**1.8**	126	1.7
Others	**37**	**0.6**	59	1.1
Total NPLs	**1,417**	**1.7**	1,182	1.5
Classified debt securities	**31**		166	
Total NPAs	**1,448**		1,348	

	2009 S$ million	2009 %	2008 S$ million	2008 %
NPAs by Period Overdue				
Over 180 days	**639**	**44**	568	42
Over 90 to 180 days	**188**	**13**	193	14
30 to 90 days	**208**	**14**	188	14
Less than 30 days	**74**	**5**	230	17
Not overdue	**339**	**24**	169	13
	1,448	**100**	1,348	100

Management Discussion and Analysis

CUMULATIVE ALLOWANCES FOR LOANS AND OTHER ASSETS

	Total cumulative allowances S$ million	Specific allowances [1] S$ million	Portfolio allowances S$ million	Specific allowances as % of total NPAs %	Cumulative allowances as % of total NPAs %
Singapore					
2009	**588**	**76**	**512**	**18.2**	**140.9**
2008	655	151	504	38.1	165.8
Malaysia					
2009	**463**	**233**	**230**	**36.6**	**72.8**
2008	462	242	220	48.7	93.0
Other ASEAN					
2009	**177**	**111**	**66**	**52.3**	**83.4**
2008	133	72	61	56.3	104.7
Greater China					
2009	**149**	**55**	**94**	**79.7**	**217.1**
2008	133	48	85	76.4	210.9
Other Asia Pacific					
2009	**54**	**3**	**51**	**7.0**	**115.7**
2008	98	53	45	55.6	102.6
Rest of the World					
2009	**52**	**6**	**46**	**9.4**	**76.9**
2008	204	140	64	82.0	119.4
Group					
2009	**1,483**	**484**	**999**	**33.4**	**102.4**
2008	1,685	706	979	52.3	125.0

(1) Include allowances of S$6 million (2009) and S$108 million (2008) for classified CDOs.

As at 31 December 2009, the Group's total cumulative allowances for assets were S$1,483 million, comprising S$484 million in specific allowances and S$999 million in portfolio allowances. Total cumulative allowances were 102% of total NPAs and 249% of unsecured NPAs, compared to 125% and 240% respectively at the end of 2008.

Management Discussion and Analysis

COLLATERALISED DEBT OBLIGATIONS ("CDOs")

The Bank's CDO investment portfolio was S$103 million as at 31 December 2009, down from S$453 million in 2008 as a result of disposals and write-offs. Allowances on asset-backed securities CDOs ("ABS CDOs") and corporate CDOs have been made in full through the income statement since the second quarter of 2008 and first quarter of 2009 respectively.

The outstanding CDO exposure at the end of 2009 comprised corporate CDOs. Cumulative allowances of S$40 million, and cumulative mark-to-market losses of S$63 million on the credit default swaps related to the corporate CDOs, have been made in the income statement.

	2009		2008	
Type of CDOs	**Exposure S$ million**	**Allowance S$ million**	**Exposure S$ million**	**Allowance S$ million**
ABS CDOs investment portfolio	**–**	**–**	252	(252)
Corporate CDOs investment portfolio	**103**	**(40)** [1]	201	(47)
Total CDOs portfolio	**103**	**(40)** [1]	453	(299)

[1] In addition to the cumulative allowances of S$40 million, the Bank has also taken cumulative mark-to-market losses of S$63 million to the income statement.

DEPOSITS

	2009 S$ million	**2008 S$ million**	**+/(-) %**
Deposits of non-bank customers	**100,633**	94,078	7
Deposits and balances of banks	**10,958**	10,113	8
Total deposits	**111,591**	104,191	7
Non-Bank Deposits by Product			
Fixed deposits	**53,621**	57,218	(6)
Savings deposits	**21,753**	16,104	35
Current account	**20,762**	16,090	29
Others	**4,497**	4,666	(4)
	100,633	94,078	7
Non-Bank Deposits by Currency			
Singapore Dollar	**58,458**	53,745	9
United States Dollar	**11,144**	12,105	(8)
Malaysian Ringgit	**16,286**	14,672	11
Indonesian Rupiah	**3,735**	3,039	23
Others	**11,010**	10,517	5
	100,633	94,078	7
Loans to deposits ratio (net non-bank loans/non-bank deposits)	**80.4%**	84.8%	

Non-bank customer deposits grew 7% to S$100.6 billion. The increase was led by savings and current account deposits, which grew by 35% and 29% respectively, while fixed deposits fell by 6%.

The Group's loans-to-deposits ratio was 80.4%, compared to 84.8% a year ago.

Management Discussion and Analysis

PERFORMANCE BY BUSINESS SEGMENT

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

Operating Profit by Business Segment

	2009 S$ million	2008 S$ million	+/(-) %
Global Consumer Financial Services	**605**	674	(10)
Global Corporate Banking	**830**	834	–
Global Treasury	**600**	478	26
Insurance [(1)]	**579**	229	153
Others [(2)]	**294**	64	358
Operating profit after allowances and amortisation for total business segments	**2,908**	2,279	28
Add/(Less):			
– Joint income elimination [(3)]	**(305)**	(348)	(12)
– Items not attributed to business segments	**(60)**	(38)	59
Operating profit after allowances and amortisation	**2,543**	1,893	34

(1) Pre-tax divestment gains of S$41 million for 2008 are not included.
(2) Pre-tax divestment gains of S$145 million for 2008 are not included.
(3) These are joint income allocated to business segments to reward cross-selling activities.

Global Consumer Financial Services

Global Consumer Financial Services 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 2009, operating profit after allowances of the consumer segment declined by 10% to S$605 million, largely because of lower fee and commission income and increased allowances. Net interest income was higher as a result of improved loan spreads, while expenses were lower.

Global Corporate Banking

Global Corporate Banking serves 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.

Global Corporate Banking's operating profit after allowances for 2009 was relatively unchanged from the previous year at S$830 million. Revenue grew 5% as higher loan volumes and improved spreads boosted net interest income, while expenses fell 2%. These effects were however offset by the increase in loan allowances.

Global Treasury

Global 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.

Global Treasury's operating profit increased by 26% to S$600 million in 2009, driven by higher foreign exchange gains and income from derivatives and securities trading.

Insurance

The Group's insurance business, including its fund management activities, is carried out by 87.1%-owned subsidiary GEH, which provides both life and general insurance products to its customers mainly in Singapore and Malaysia.

Operating profit from GEH increased significantly from S$229 million in 2008 to S$579 million in 2009, contributed mainly by stronger life assurance results as the equity and credit markets recovered. The profit included S$201 million of non-recurring gains arising mainly from the implementation of the new Risk Based Capital framework in Malaysia, as well as the S$213 million loss from the GLC redemption offer.

After minority interests and tax, and excluding divestment gains and tax write-backs in prior periods, GEH's contribution to the Group's core net profit was S$412 million in 2009, compared to S$160 million in 2008.

Others

The "Others" segment comprises Bank OCBC NISP, PacificMas Berhad, corporate finance, capital markets, property holding, stock brokerage and investment holding.

Management Discussion and Analysis

PERFORMANCE BY GEOGRAPHICAL SEGMENT

	2009		2008	
	S$ million	%	S$ million	%
Total core income				
Singapore [1]	**2,912**	**60**	2,684	63
Malaysia	**1,239**	**26**	914	22
Other ASEAN	**370**	**8**	326	8
Asia Pacific	**242**	**5**	272	6
Rest of the World	**52**	**1**	45	1
	4,815	**100**	4,241	100
Profit before income tax				
Singapore [1]	**1,594**	**63**	1,244	66
Malaysia	**800**	**31**	519	27
Other ASEAN	**125**	**5**	81	4
Asia Pacific	**41**	**2**	45	2
Rest of the World	**(17)**	**(1)**	10	1
	2,543	**100**	1,899	100
Total assets				
Singapore	**125,001**	**64**	118,157	66
Malaysia	**43,070**	**22**	38,402	21
Other ASEAN	**6,922**	**4**	5,853	3
Asia Pacific	**15,754**	**8**	15,029	8
Rest of the World	**3,553**	**2**	3,944	2
	194,300	**100**	181,385	100

(1) Excludes pre-tax divestment gains of S$186 million in 2008.

The geographical segment analysis is based on the location where assets or transactions are booked. For 2009, Singapore accounted for 60% of total income and 63% of pre-tax profit, while Malaysia accounted for 26% of total income and 31% of pre-tax profit.

Pre-tax profit for Singapore increased by 28% in 2009, as higher insurance profits and trading gains more than offset the GLC loss of S$213 million. Malaysia's pre-tax profit rose 54% to S$800 million, partly because of the non-recurring insurance gains of S$201 million arising mainly from the adoption of the new Risk Based Capital framework in Malaysia.

CAPITAL ADEQUACY RATIOS

OCBC Group continues to maintain a strong capital position, with a Tier 1 capital adequacy ratio ("CAR") of 15.9% and total CAR of 16.4% as at 31 December 2009, well above the regulatory minimum of 6% and 10% respectively. These ratios improved from their end-2008 levels of 14.9% and 15.1%, respectively, as a result of retained earnings, the issue of new shares pursuant to the Scrip Dividend Scheme, and two issues of Lower Tier 2 subordinated notes during the year.

The Group's core Tier 1 ratio, which excludes perpetual and innovative preference shares, increased from 11.0% to 12.0% over the year. On a pro-forma basis, adjusting for the consolidation of Bank of Singapore (the former ING Asia Private Bank which was acquired by the Group) on 29 January 2010, the Group's Tier 1 ratio and core Tier 1 ratio will be approximately 14.5% and 10.7% respectively.

UNREALISED VALUATION SURPLUS

	2009	2008
	S$ million	S$ million
Properties [1]	**2,278**	2,369
Equity securities [2]	**1,110**	(277)
Total	**3,388**	2,092

(1) Includes properties classified as investment properties and assets held for sale. Property values are determined mainly based on external valuations at year-end.

(2) Comprises mainly investments in quoted associates and subsidiaries, which are valued based on their market prices at the end of the year.

The Group's unrealised valuation surplus represents the difference between the carrying values of its properties and investments in quoted subsidiaries/associates as compared to the property values and market prices of the quoted investments at the respective periods. The carrying values of subsidiaries and associates on the balance sheet are measured at cost plus post-acquisition reserves, while those of properties are measured at cost less accumulated depreciation and impairment.

The valuation surplus as at 31 December 2009 was S$3.39 billion, an increase of 62% from S$2.09 billion at 31 December 2008. The increase was due to the surplus for equity securities, mainly from the Group's stake in GEH.

Directors' Report

For the financial year ended 31 December 2009

The directors present their report to the members together with the audited consolidated financial statements of the Group and the income statement, statement of comprehensive income, balance sheet and statement of changes in equity of the Bank for the financial year ended 31 December 2009.

DIRECTORS

The directors of the Bank in office at the date of this report are as follows:

Cheong Choong Kong, Chairman
Bobby Chin Yoke Choong
David Philbrick Conner, Chief Executive Officer
Fang Ai Lian
Giam Chin Toon
Lee Seng Wee
Lee Tih Shih
Colm Martin McCarthy
Neo Boon Siong
Pramukti Surjaudaja
Wong Nang Jang
Patrick Yeoh Khwai Hoh

Mr David Philbrick Conner and Professor Neo Boon Siong retire by rotation under Articles 95 and 96 of the Articles of Association of the Bank and, being eligible, offer themselves for re-election.

Mr Giam Chin Toon, who retires pursuant to Articles 95 and 96 of the Articles of Association of the Bank, has expressed his wish to retire at this forthcoming annual general meeting and will not offer himself for re-election.

Mr Lee Seng Wee and Mr Patrick Yeoh Khwai Hoh retire pursuant to section 153 of the Companies Act, Cap. 50. Resolutions will be proposed for their re-appointment under section 153(6) of the said Act to hold office until the next annual general meeting of the Bank.

Mr Wong Nang Jang, having attained the age of 70, will cease to hold office at the conclusion of the forthcoming annual general meeting pursuant to section 153 of the Companies Act, Cap. 50, but will not be standing for re-appointment thereat.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Bank a party to any arrangement whose object is to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, other than as disclosed in this report.

Directors' Report

For the financial year ended 31 December 2009

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register of directors' shareholdings, the directors holding office at the end of the financial year had interests in the share capital of the Bank and its related corporation, as follows:

	Direct interest		Deemed interest	
	At 31.12.2009	**At 1.1.2009**	**At 31.12.2009**	**At 1.1.2009**
BANK				
Ordinary shares				
Cheong Choong Kong	**165,923**	127,982	**10,074** (1)	39,715 (2)
Bobby Chin Yoke Choong	**15,112**	9,600	**41,979** (1)	40,000 (1)
David Philbrick Conner	**1,333,094**	1,120,542	**778,967** (3)	401,493 (4)
Giam Chin Toon	**20,149**	14,400	**–**	–
Lee Seng Wee	**6,988,447**	6,653,994	**4,094,223** (1)	3,901,094 (1)
Lee Tih Shih	**2,484,760**	2,362,752	**–**	–
Neo Boon Siong	**20,149**	14,400	**–**	–
Wong Nang Jang	**622,299**	586,146	**173,505** (1)	165,322 (1)
Patrick Yeoh Khwai Hoh	**26,000**	19,200	**–**	–
5.1% Class B non-cumulative non-convertible preference shares				
Fang Ai Lian	**1,700**	1,700	**–**	–
4.2% Class G non-cumulative non-convertible preference shares				
Cheong Choong Kong	**15,000**	15,000	**–**	–
Bobby Chin Yoke Choong	**–**	–	**8,227** (1)	8,227 (1)
David Philbrick Conner	**50,000**	50,000	**–**	–
Lee Seng Wee	**800,000**	800,000	**600,000** (1)	600,000 (1)
Lee Tih Shih	**240,000**	240,000	**–**	–
Wong Nang Jang	**38,216**	38,216	**21,372** (1)	21,372 (1)
OCBC Capital Corporation (2008)				
5.1% non-cumulative non-convertible guaranteed preference shares				
Cheong Choong Kong	**10,000**	10,000	**–**	–
Lee Tih Shih	**10,000**	10,000	**–**	–
Patrick Yeoh Khwai Hoh	**10,000**	10,000	**10,000** (1)	10,000 (1)

(1) Ordinary shares/preference shares held by spouse.

(2) Comprises interest of 9,600 ordinary shares held by spouse and 30,115 ordinary shares under OCBC Deferred Share Plan.

(3) Comprises interest of 773,521 ordinary shares under OCBC Deferred Share Plan and acquisition rights of 5,446 ordinary shares under OCBC Employee Share Purchase Plan.

(4) Comprises interest of 392,787 ordinary shares under OCBC Deferred Share Plan and acquisition rights of 8,706 ordinary shares under OCBC Employee Share Purchase Plan.

None of the directors have direct or deemed interest in the 4.5% Class E non-cumulative non-convertible preference shares.

Save as disclosed above, no directors had any interest in shares, or debentures of, the Bank or related corporations either at the beginning of the financial year, or at the end of the financial year.

There were no changes to any of the above mentioned interests in the Bank between the end of the financial year and 21 January 2010.

Directors' Report

For the financial year ended 31 December 2009

DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive, benefits by reason of a contract made by the Bank or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in this report, and except for professional fees paid to a firm of which a director is a member as disclosed in the financial statements.

On 12 June 2006, an agreement was made between Dr Cheong Choong Kong ("Dr Cheong"), non-executive director and Chairman of the Bank, and OCBC Management Services Private Limited, a wholly-owned subsidiary of the Bank, under which Dr Cheong is appointed as consultant to oversee and supervise the strategic planning of the Bank and its subsidiaries with respect to customer service, talent identification, and the development and succession of senior management within the Group. This agreement was renewed on 1 December 2008. Under the respective agreements, (i) in respect of the financial year ended 31 December 2009, Dr Cheong has received payments and benefits amounting to $1,109,478, and will receive a variable bonus of $100,000, or any additional bonus as may be determined by the Remuneration Committee and the Board of Directors of the Bank, and (ii) in respect of the financial year ended 31 December 2008, Dr Cheong has received aggregate payments and benefits of $1,111,560 and a variable bonus of a total amount of $475,000, comprising a bonus of $100,000 and an additional bonus of $375,000.

In his capacity as a director of the Bank, Dr Cheong is also eligible for any directors' fees or share options that are recommended by the Board of Directors. Dr Cheong's total remuneration (including the payments mentioned above and all benefits, variable bonus, directors' fees and share options) for the financial year ended 31 December 2009 is reflected in the Directors' Remuneration table in the Corporate Governance Section of the Annual Report.

SHARE-BASED COMPENSATION PLANS

The Bank's share-based compensation plans are administered by the Remuneration Committee, which comprises:

Wong Nang Jang, Chairman
Cheong Choong Kong
Fang Ai Lian
Lee Tih Shih

Dr Cheong Choong Kong did not participate in any deliberation or decision in respect of options granted to him.

Under the share-based compensation plans, no options or rights have been granted to controlling shareholders of the Bank or their associates, nor has any participant received 5% or more of the total number of options or rights available under each respective scheme or plan during the financial year. No options or rights were granted at a discount during the financial year. The persons to whom the options or rights were issued have no right by virtue of these options or rights to participate in any share issue of any other company.

Directors' Report

For the financial year ended 31 December 2009

SHARE-BASED COMPENSATION PLANS (continued)

The Bank's share-based compensation plans are as follows:

(a) OCBC Share Option Schemes

The OCBC Executives' Share Option Scheme 1994 ("1994 Scheme") was approved at an extraordinary general meeting on 11 June 1994. The 1994 Scheme was terminated on 3 August 2001 and replaced by the OCBC Share Option Scheme 2001. Outstanding options under the 1994 Scheme remain valid until the respective expiry dates of the options.

The OCBC Share Option Scheme 2001 ("2001 Scheme") was approved at an extraordinary general meeting on 17 May 2001, to replace the 1994 Scheme. Executives of the Group ranked Manager and above (including executive and non-executive directors), are eligible for this scheme. The Bank will either issue new shares or transfer treasury shares to the executives upon their exercise of options.

Particulars of Options 2000, 2001, 2002, 2002A, 2002B, 2003, 2004, 2004A, 2004B, 2005, 2005A, 2006, 2006A, 2006B, 2007, 2007A, 2007B, 2007NED, 2008 and 2008NED were set out in the Directors' Reports for the financial years ended 31 December 2000 to 2008.

During the financial year, pursuant to the 2001 Scheme, options to acquire 3,755,564 ordinary shares at $4.138 per share were granted to 383 eligible executives of the Group ("2009 Options"), as well as to a non-executive director of the Bank ("2009NED Options"). The acquisition price was equal to the average of the last traded price of the ordinary shares of the Bank on the Singapore Exchange over five consecutive trading days immediately prior to the date when the offer to grant an option was made to a grantee.

Details of unissued ordinary shares under the share option scheme, options exercised during the financial year and options outstanding and exercisable at 31 December 2009 are as follows:

Options	Exercise period	Acquisition price ($)	Options exercised	Treasury shares transferred	At 31.12.2009 Outstanding	At 31.12.2009 Exercisable
2000	06.12.2002 to 05.12.2009	4.542	2,229,890	2,168,354	–	–
2001	05.12.2003 to 04.12.2010	5.367	818,497	814,096	3,084,751	3,084,751
2002	09.04.2003 to 08.04.2012	5.742	647,437	636,903	5,172,196	5,172,196
2002A	23.04.2003 to 22.04.2012	5.692	–	–	720,000	720,000
2002B	24.10.2003 to 23.10.2012	4.367	–	–	180,000	180,000
2003	28.03.2004 to 26.03.2013	4.067	580,898	560,343	4,180,678	4,180,678
2004	16.03.2005 to 14.03.2014	5.142	1,257,537	936,299	3,059,700	3,059,700
2004A	20.08.2005 to 18.08.2014	5.492	–	–	160,800	160,800
2004B	23.11.2005 to 21.11.2014	5.667	–	–	103,200	103,200
2005	15.03.2006 to 13.03.2015	5.767	312,712	303,600	3,898,530	3,898,530
2005A	09.04.2006 to 07.04.2015	5.784	230,840	201,528	1,144,988	1,144,988
2006	15.03.2007 to 13.03.2016	6.820	207,983	201,518	3,247,744	3,247,744
2006B	24.05.2007 to 22.05.2016	6.580	159,150	131,864	864,790	864,790
2007	15.03.2008 to 13.03.2017	8.590	17,174	17,174	3,455,252	2,272,060
2007A	16.01.2008 to 14.01.2017	7.600	–	–	445,000	293,700
2007B	15.03.2008 to 13.03.2017	8.590	–	–	916,010	604,230
2007NED	15.03.2008 to 13.03.2012	8.590	–	–	200,000	132,000
2008	15.03.2009 to 13.03.2018	7.520	72,768	71,888	5,027,302	1,611,354
2008NED	15.03.2009 to 13.03.2013	7.520	–	–	200,000	66,000
2009	17.03.2010 to 15.03.2019	4.138	–	–	3,523,061	–
2009NED	17.03.2010 to 15.03.2014	4.138	–	–	162,958	–
			6,534,886	6,043,567	39,746,960	30,796,721

Directors' Report
For the financial year ended 31 December 2009

SHARE-BASED COMPENSATION PLANS (continued)
(b) OCBC Employee Share Purchase Plan

The OCBC Employee Share Purchase Plan ("ESP Plan") was approved at an extraordinary general meeting on 30 April 2004. Employees of the Group who have attained the age of 21 years and been employed for not less than six months are eligible for the ESP Plan. Particulars of the ESP Plan were set out in the Directors' Report for the financial year ended 31 December 2007.

At an extraordinary general meeting held on 17 April 2009, alterations to the ESP Plan were approved to enable two (but not more than two) Offering Periods to be outstanding on any date. Since each Offering Period currently consists of a 24-month period, these alterations will enable the Bank to prescribe Offering Periods once every 12 months (instead of once every 24 months as was previously the case).

In June 2009, the Bank launched its fourth offering of ESP Plan, which commenced on 1 July 2009 and will expire on 30 June 2011. Under the fourth offering, 3,691 employees (including a director of the Bank) enrolled to participate in the ESP Plan to acquire 5,545,385 ordinary shares at $6.61 per ordinary share. The acquisition price is equal to the average of the last traded price of the ordinary shares of the Bank on the Singapore Exchange over five consecutive trading days immediately preceding the price fixing date.

(c) OCBC Deferred Share Plan

The Bank implemented the OCBC Deferred Share Plan ("DSP") in 2003. The DSP is a discretionary incentive and retention award programme extended to executives of the Group ranked Assistant Manager and above at the absolute discretion of the Remuneration Committee. Details of the DSP were set out in the Directors' Report for the financial year ended 31 December 2007.

Total awards of 5,333,474 ordinary shares (including 441,863 ordinary shares to a director of the Bank) were granted to eligible executives under the DSP for the financial year ended 31 December 2009. In addition, total awards of 534,164 ordinary shares (including 36,485 ordinary shares to directors of the Bank) were awarded to grantees pursuant to declarations of final dividend for financial year ended 31 December 2008 and interim dividend for financial year ended 31 December 2009. During the financial year, 1,253,853 deferred shares were released to grantees, of which 127,729 deferred shares were released to directors of the Bank.

Changes in the number of options under the share option scheme and acquisition rights under the ESP Plan held by directors for the financial year under review are as follows:

Name of director	Options granted/ rights subscribed to acquire ordinary shares for the financial year ended 31.12.2009	Aggregate number of options granted/rights subscribed since commencement of scheme/plan to 31.12.2009	Aggregate number of options/rights exercised/ converted/ lapsed since commencement of scheme/plan to 31.12.2009	Aggregate number of options/rights outstanding at 31.12.2009
Option Scheme				
Cheong Choong Kong	162,958	1,077,758	–	1,077,758
David Philbrick Conner	–	4,565,000	1,512,000	3,053,000
Wong Nang Jang	–	927,539	927,539	–
ESP Plan				
David Philbrick Conner	5,446	39,571	34,125	5,446

There were no changes to any of the above mentioned interests in the Bank between the end of the financial year and 21 January 2010.

Directors' Report

For the financial year ended 31 December 2009

AUDIT COMMITTEE

The members of the Audit Committee at the date of this report are as follows:

Bobby Chin Yoke Choong, Chairman
Giam Chin Toon
Colm Martin McCarthy
Neo Boon Siong

The Audit Committee performed the functions specified in the Companies Act, the SGX-ST Listing Manual, the Banking (Corporate Governance) Regulations 2005, the MAS Guidelines for Corporate Governance and the Code of Corporate Governance. In performing these functions, the Audit Committee met with the Bank's external and internal auditors, and reviewed the audit plans, the internal audit programme, as well as the results of the auditors' examination and their evaluation of the system of internal controls.

The Audit Committee also reviewed the following:

(a) response of the Bank's management and the assistance provided by officers of the Bank to the external and internal auditors;
(b) the financial statements of the Group and the Bank and the auditors' report thereon prior to their submission to the Board of Directors; and
(c) the independence and objectivity of the external auditors.

The Audit Committee has full access to, and the cooperation of, the management and has been given the resources required for it to discharge its functions. It has full authority and discretion to invite any director and executive officer to attend its meetings.

The Audit Committee has nominated KPMG LLP for re-appointment as auditors of the Bank at the forthcoming annual general meeting.

AUDITORS

The auditors, KPMG LLP, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors,

CHEONG CHOONG KONG
Director

DAVID PHILBRICK CONNER
Director

Singapore
19 February 2010

Statement by Directors

For the financial year ended 31 December 2009

In the opinion of the directors,

(a) the financial statements set out on pages 74 to 153 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2009, the results and changes in equity of the Group and of the Bank for the financial year ended on that date, and cash flows of the Group for the financial year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors,

CHEONG CHOONG KONG
Director

DAVID PHILBRICK CONNER
Director

Singapore
19 February 2010

Independent Auditors' Report

To the Members of Oversea-Chinese Banking Corporation Limited

We have audited the accompanying financial statements of Oversea-Chinese Banking Corporation Limited ("the Bank") and its subsidiaries ("the Group"), which comprise the balance sheets of the Group and the Bank as at 31 December 2009, the income statements, statements of comprehensive income and statements of changes in equity of the Group and the Bank and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 74 to 153.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards. This responsibility includes:

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion,

(a) the consolidated financial statements of the Group and the financial statements of the Bank are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards, including the modification of the requirements of FRS 39 *Financial Instruments: Recognition and Measurement* in respect of loan loss provisioning by Notice to Banks No. 612 'Credit Files, Grading and Provisioning' issued by the Monetary Authority of Singapore, to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2009, the results and changes in equity of the Group and of the Bank and cash flows of the Group for the year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Bank and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG LLP

KPMG LLP
Public Accountants and
Certified Public Accountants

Singapore
19 February 2010