

Operations Review

Our core business units delivered satisfactory results despite a difficult operating environment. Proactive risk management was a priority throughout the year as the global financial crisis intensified. Still, as we steered through uncertain times, we remained focused on our New Horizons II strategy, striving to grow our businesses, designated markets and priority customer segments. And we continued to invest in various service excellence initiatives to provide a differentiated experience for our customers.

GLOBAL CONSUMER FINANCIAL SERVICES

In a turbulent year marked by weakening consumer confidence, particularly in the second half, our consumer banking business managed to deliver healthy earnings growth. Propelled by higher net interest income and fee income, revenue grew 13% to S\$1.31 billion and pretax profit rose 17% to S\$678 million. Our consumer franchise continues to improve as evidenced by an 11% increase in our retail customer base.

In Singapore, we maintained our number one bancassurance position with a market share of 46%, up from 40% in 2007. We continued to leverage on our strategic relationship with Great Eastern Holdings to cross-sell products that meet the diverse needs of our customers.

Home loans remain an important segment of our consumer loans portfolio. In 2008, we grew our Singapore and Malaysia home loan portfolios, albeit at a prudent pace due to softening property valuations. Our unsecured lending and credit card business across the region grew by 8%, reflecting our successful efforts to introduce new product features and to further engage customers through integrated marketing and promotional campaigns.

We also continued to invest in our service and delivery channels to provide a superior and differentiated banking experience. To date, 26 branches in Singapore, including our main OCBC Centre, and nine branches in Malaysia have been re-modelled with our new branch design and layout which offers an enhanced level of service, convenience and interaction with our customers. In Singapore we doubled our Premier Banking Centres from five to 10, and opened a new service centre for our Private Bank clients. In response to positive customer feedback, we extended our full-service Sunday Banking offering in Singapore from 10 to 15 branches, and launched the same service in Malaysia at our Melaka branch. Our wholly-owned Islamic Banking subsidiary in Malaysia, named OCBC Al-Amin Bank Berhad, commenced operations in December 2008 at its first branch in Petaling Jaya. We also opened our first Premier Banking Centre in Hong Kong.

Our collaboration with NTUC, through supermarket banking *FairPrice Plus*, and co-branded financial services programme *NTUC Plus*, showed good progress as we achieved a combined customer base of close to a quarter million customers by the end of 2008. *FairPrice Plus*, which was first launched in April 2007, achieved 80% customer growth during the year. In October 2008, we introduced the *U-Plus* credit and debit cards, the latest generation multi-benefit payment, loyalty and membership card for NTUC members. OCBC Bank received a "U-Star Award" from NTUC for our contributions to NTUC and the labour movement, a first for any bank.

Another important milestone was our appointment as one of two managing agent banks for the Children Development Accounts (CDA) under the Singapore Baby Bonus Scheme. Reflecting our success with family-centric initiatives such as the *OCBC Mighty Savers™* programme and full-service Sunday Banking, more than 75% of the parents with CDA account chose to move to OCBC. Growing this business forms an important component of our strategy to nurture a new generation of customers.

Several key initiatives were launched in Singapore and across the region as part of our continuing focus on service innovation and excellence. In partnership with China Unionpay, we launched *EasiRemit*, the first real-time remittance service from Singapore to China using mobile phones and ATMs. Together with comGateway, we introduced an online shopping portal, *ShopOnLine*, that provides OCBC cardholders with seamless access to more than 300,000 online retailers in the US. A first-in-Asia, our *SmartChange* offering has a save-as-you-spend feature which allows OCBC debit and credit cardmembers to elect to save the small change on their card spend into a designated savings account, matched by an equal contribution from OCBC for the first three months and a modest percentage thereafter. To better meet customers' financial needs beyond the single revolving credit line, we also introduced *Paylite*, a product that allows customers to finance major purchases in interest-free installments at a low processing fee.

OCBC continued to receive awards in recognition of our innovative service and efforts to provide more convenience to our customers. Most notable were three awards for 2009 presented by *The Asian Banker* for the Best Retail Bank in Singapore for Excellence in Retail Financial Services, a joint award with Great Eastern Holdings for Excellence in Bancassurance, and an Award for Excellence in Customer Advocacy. In 2008, we were recognised by *The Asian Banker* for Best Deposit-Linked Product (*Mighty Savers™*) across the Asia-Pacific region. Our Mobile Banking offering garnered two awards, one for Excellence in Mobile Phone Banking by *The Asian Banker* and another for business innovation by financial services firms across the Asia-Pacific by *Financial Insights Innovation*. Our Singapore Contact Centre won the Gold Award for the Best Contact Centre of the Year for the second consecutive year at the International Contact Centre Awards Ceremony. Other awards include Best Security Initiative and Best Anti-Fraud awards from *The Asian Banking & Finance Retail Banking* for developing the best-in-class two-factor authentication security features for our Internet Banking.

GLOBAL CORPORATE BANK

Global Corporate Bank achieved 20% increase in revenue to S\$1.43 billion, led by growth in net interest income and higher fee income from treasury and investment banking products. Pre-tax profit

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increased by a more moderate 4% to S\$853 million, as we set aside more allowances for loans as compared to a net writeback of allowances in the previous year. While Singapore continues to be the largest revenue contributor, we also achieved double-digit revenue growth in markets outside of Singapore and Malaysia, particularly in Greater China as we delivered on the local and regional financing needs of our network customers.

In Singapore, loan growth was strong in the large corporate segment and healthy in the small and medium enterprises (SME) segment. Despite the turbulent debt and equity capital markets, successful cross-sell efforts resulted in our being awarded a number of major investment banking mandates, contributing to growth in our fee income. We were the joint financial adviser and underwriter for Parkway Holdings' S\$782 million rights issue, one of the largest equity capital transactions in Singapore in 2008. We were also mandated joint lead arranger and bookrunner for the largest commercial as well as residential real estate financing transactions in Singapore.

In Malaysia, we achieved broad-based loan growth across various customer segments. Major financing mandates include the RM220 million syndicated term loan facility for the construction of the Eastern Dispersal Link Expressway in Johor Bahru, and a S\$1 billion syndicated loan facility to a subsidiary of Khazanah Nasional Berhad for the acquisition of an equity interest in Parkway Holdings.

Several key initiatives targeted at SMEs were launched, contributing to a healthy 15% increase in our SME customer base. In Singapore, we introduced *OCBC BizExpress*, a free document collection service in industrial areas to complement our existing branch network. We opened our first full-service Business Banking Centre in Ubi, which is dedicated to servicing companies in the vicinity. We now have eight Business Banking Centres located islandwide. We launched several new products, including *OCBC Express Equipment and Machinery Financing* and *OCBC FlexCash Solutions*, a flexible working capital solution. *Easi-ProCheck*, which has been a proven success in Malaysia, was introduced to our customers in Singapore, replacing the manual cheque issuance process with cheques printed using our secured cheque writing software.

In Malaysia, we launched a bulk cash collection service, *Easi-Cash Collect* and rolled out enhancements to our *Easi-GIRO*, *Easi-FPX* and *Easi-Alerts* services to augment the functionality of these products and services.

Group Transaction Banking

We strengthened our position as a leading cash management provider in Singapore and Malaysia. The customer base of *Velocity@ocbc* grew 38% in Singapore and doubled in Malaysia, while transaction volumes increased 18% in Singapore and almost tripled in Malaysia. OCBC became the first bank in Singapore to enable employers to submit and pay their employees' CPF contributions through Internet Banking with CPF eSubmission via *Velocity@ocbc*. In China, we launched *Velocity@ocbc* and established our cash management and trade finance teams to support our business customers.

Our trade finance business registered a steady 12% growth in transaction volume in both Singapore and Malaysia, despite challenging market conditions in the latter half of 2008. We introduced *Trade eAlerts* for our corporate customers, an email/SMS notification service providing status updates on their trade documents.

OCBC garnered several regional cash management awards in 2008, including Best SME Cash Management Solution Bank by *The Asset* and Best Cash Management Solution in Southeast Asia by *Alpha Southeast Asia*. For the second year running, we were awarded *FinanceAsia's* Best Cash Management Bank in Singapore. We were also voted Best Foreign Cash Management Bank in Malaysia by small, medium and large corporates in *Asiamoney's* 2008 Cash Management Poll.

GLOBAL TREASURY

Our Treasury division managed through the financial crisis with stronger operating results and a strengthened business franchise. We kept to our vision of becoming a dominant and preferred provider for Asian treasury product and advisory sales, and were disciplined in the way we took advantage of market opportunities, managing our risks tightly. Pro-active risk management and vigilant controls in place have allowed us to cope with heightened stress in market and liquidity risks. Our investments in building up our talent pool and infrastructure support, as well as diversification of product capabilities and revenue streams across asset classes and geographies, have resulted in a well-balanced and sustainable business.

For the year, our global treasury revenue rose 55% to S\$683 million and pre-tax profit increased 59% to S\$478 million. Revenue from overseas centres including Malaysia grew by a robust 91%, in line with our New Horizons II strategy of deepening our penetration in regional markets. Increased market volatility throughout the year exacerbated risks while creating opportunities for both our customer and risk taking treasury activities. Judicious management of our business resulted in revenue from sales and trading growing by more than 60%, with risks contained at the appropriate levels.

In recognition of our strengths in treasury product coverage, product innovation and customer service, we were ranked top in several Asian polls for various Asian local currency treasury products. In *Asia Risk End User Survey 2008*, OCBC was ranked first in the list of Top 5 regional banks and was the only Singapore bank in the list of Overall Top 10 banks. We were also awarded Best Structured Product Solution of the Year in South East Asia by *Alpha South East Asia* and House of the Year, Singapore by *AsiaRisk*.

GROUP INVESTMENT BANKING

OCBC topped the *International Financing Review (IFR) Asia* league tables for Singapore syndicated loans, with US\$4.1 billion in 16 deals representing 15% market share, and for Singapore dollar bonds, with S\$4.5 billion in 26 issues representing 30% market share. Our Capital Markets team lead-managed key deals including financing for the MGP Berth, acquisition financings for Tuas Power and Senoko Power, capital instrument issues for OCBC Bank and Maybank and bond issues for SP PowerAssets.

We ranked second in the underwriters' league table for secondary equity capital raising deals in Singapore. One of the key transactions was Parkway Holdings' rights issue of S\$782 million for which we acted as the joint financial advisor and underwriter.

In Malaysia, we lead-managed the maiden S\$1 billion loan syndication for Khazanah Nasional Berhad and a US\$1 billion loan syndication for MISC Capital (L) Limited, among others. Another major transaction was Muhibbah Engineering Berhad's RM400

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million Private Debt Securities Programme, the first Sukuk Mudharabah issuance by a listed Malaysian corporation. In recognition of our structuring capabilities, we won the Country Deal of the Year by *Asiamoney* and Malaysia Capital Markets Deal by *IFR Asia* for our role as the joint lead manager for a RM19 billion multi-tranche bond to finance the privatisation of Maxis Communications Berhad, which was the largest ever bond issue in Malaysia and one of the largest in Asia ex-Japan to date.

OCBC MALAYSIA

OCBC Malaysia is one of the largest foreign banks by assets and loans in Malaysia, with a network of 29 branches. Our net profit grew 20% to RM617 million (S\$256 million) in 2008, with broad-based contributions from net interest, non-interest and Islamic Banking income. Customer loans increased by 13% to RM31 billion, supported by business loans, particularly SME loans, and steady housing loans growth.

We introduced various product and service innovations, including a dedicated hotline to help SMEs seek financing, *OCBC Mobile Banking* to allow customers to manage their accounts via their mobile phones, and the *iQ* account for our mass affluent customers. For Islamic banking, we introduced *Next Day Cash*, the country's first Shariah-compliant personal financing product that allows customers to obtain their cash within a day of applying.

Since the launch of the branch transformation in 2007, we have to-date revamped nine of our 29 branches with the new branch design. We also relocated our branches in Segamat and Melaka to better reach out to customers. Our Melaka branch is the first bank in the state to open seven days a week.

We achieved a major milestone with the establishment of OCBC Al-Amin Bank Berhad, our Islamic Banking subsidiary which commenced operations on 1 December 2008 at its first branch at Petaling Jaya. While OCBC Malaysia has been offering a limited number of Islamic banking products and services under our conventional license over the past 13 years, our full-fledged Islamic Banking subsidiary will now offer the full range of Shariah-compliant universal banking services, including Islamic hire-purchase and corporate finance activities.

BANK OCBC NISP, INDONESIA

Our subsidiary Bank OCBC NISP reported healthy financial results for the year. Net profit grew by 27% to IDR317 billion (S\$40 million), led by 24% increase in revenue and a moderation in expenses growth. Total assets grew 18%, with loans increasing by 9%. During the year, we increased our shareholding in Bank OCBC NISP from 72.4% to 74.7%.

Bank OCBC NISP embarked on a significant transformation programme bankwide in 2008 to position itself as a "Partner for Life" to its customers. The transformation included changing its brand name from Bank NISP to Bank OCBC NISP in December 2008, and launching a streamlined organisation model as well as the adoption of various industry best practices to be made effective in 2009. Supported by OCBC, our colleagues at Bank OCBC NISP also embarked on a Quality culture transformation, with quality training programmes rolled out for management and staff to inculcate a deeper understanding of quality practices throughout the organisation.

To further cement the relationship and share best practices, cross border programmes were implemented for consumer banking, business banking, treasury and operations and technology. Successful programmes launched as a result of this collaboration include Bank OCBC NISP Premier Banking, which allows customers to enjoy a suite of banking and lifestyle privileges across the OCBC franchise in Indonesia, Singapore and Malaysia. Bank OCBC NISP also launched a *Liquid Platinum* credit card with privileges across 550 merchants in Indonesia, Singapore and Malaysia, and unique regional rewards redemption.

As part of its network strategy to acquire more deposits and grow electronic transaction fee income, 24 branches and 45 ATMs were added in 2008, bringing the total network size to 370 branches and 537 ATMs.

OCBC CHINA

Our China operations achieved revenue growth of 78% in 2008, largely driven by growth in loans and deposits in corporate banking, and higher contributions from our treasury and financial institutions businesses. In tandem with business expansion, our China staff strength increased by more than 50% in 2008.

We achieved a significant milestone in April 2008 when we obtained regulatory approval to offer retail RMB products in China. We have since expanded our consumer products and services to include mortgages, home equity loans, bancassurance, and also reinforced our "family focused bank" proposition by rolling out a children savings programme. This contributed to a tripling in our retail customer base. In December 2008, we also launched our retail Internet Banking to better serve our target customers. On the corporate banking front, we further expanded our local Chinese corporate business while deepening our relationships with Taiwanese and other network customers. We also obtained RMB corporate business licenses for our branches in Xiamen, Tianjin and Guangzhou.

We added two new main branches in Guangzhou and Beijing, expanding our foothold in the Pearl River Delta and Bohai Rim. A second sub-branch was set up in Chengdu, bringing our China network to a total of five main branches and four sub-branches in six cities, with our headquarters in Shanghai. We have obtained approval to establish a new main branch in Chongqing, West China, which is expected to open in the first half of 2009.

We launched a well-received corporate branding campaign in Shanghai and Chengdu in October 2008. The campaign serves to differentiate OCBC China from our competitors and to position us as a Singapore bank with international financial expertise that will help individuals and businesses fulfill their aspirations. Furthermore, as a bank with a heritage dating back to 1912, the campaign underscores the fact that OCBC shares common values with our customers in China.

PARTNER BANKS

Bank of Ningbo, China

Bank of Ningbo (BoN), in which OCBC holds a 10% stake, achieved strong results during the year, with its net profit rising 40% to RMB1.33 billion (S\$280 million). Its customer loans rose almost 35%, driven by its rapid business expansion within and outside Ningbo, and healthy demand from customers for financing and other products. BoN's non-performing loans ratio remained low at 0.9% as at end-2008.

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BoN opened three new branches outside its home city, in Hangzhou, Nanjing and Shenzhen, adding to the Shanghai branch that was opened in 2007. This brings its nationwide branch network (inclusive of its sub-branches) to 81, including 75 branches in Ningbo. During the year, OCBC and BoN continued to deepen collaboration in areas including new product development, risk management, information technology and talent development.

VP Bank, Vietnam

OCBC completed its acquisition of an additional 5% stake in VP Bank in October 2008, increasing its shareholding to 15%. With the opening of 13 full branches in 2008, VP Bank now has a total of 135 branches and transaction offices nationwide, including 27 in Ho Chi Minh City and 47 in Hanoi. OCBC and VP Bank teams continue to work closely together in areas including training and technical assistance, in particular in the credit reviews of VP Bank's portfolios and training for treasury personnel.

GROUP OPERATIONS AND TECHNOLOGY

Group Operations & Technology achieved further progress in its mission, focusing on service differentiation, productivity and unit cost reduction. New targets of an 18% improvement in productivity and 12% reduction in unit costs have been set for 2008-2009 for all our processing factories. In 2008, we made healthy progress towards these targets, with productivity gains of 10% and unit cost reductions of 5% across 15 processing factories in Singapore and Malaysia.

A number of quality and hubbing initiatives were executed, leading to cost savings and service improvement. We streamlined the processing of cashier's orders and implemented instant corporate account opening in Malaysia. We completed the hubbing of two additional work streams in Malaysia bringing the total to eight since we started hubbing activities 2005, allowing us to reap significant benefits from lower staff and real estate costs.

We continue to build on our IT architecture and long-term system application roadmap, and to strengthen our service management and project delivery capability. Our project highlights for the year include the following:

- Roll out of trade finance, local currency payment, and corporate Internet Banking in China.
- Supporting the launch of our Islamic Banking subsidiary in Malaysia.
- Deployment of application suites to support the Children Development Accounts under the Baby Bonus Scheme, real-time remittance service from Singapore to China via ATM or mobile banking, and the *SmartChange* credit card feature.
- Deployment of new payment processing system that enhances productivity and reduces operational risk.
- Implementation of an enterprise reconciliation system to streamline and automate reconciliation processes and enable better management of operational risks.

GROUP QUALITY & SERVICE EXCELLENCE

We continue to drive our bank-wide Service Excellence transformation agenda so that our customers enjoy a deliberate and differentiated OCBC customer experience across all our touch points. This involves focusing on two aspects of service excellence. One is Quality; making sure we deliver with zero defects, on time, all the time. We executed another 10 cross-functional process improvement projects in Singapore, Malaysia and Indonesia, with potential margin improvements of S\$26 million.

The other aspect of service excellence focuses on building strong emotional engagement with our customers. To cultivate the right service mindset, we enhanced our BEE™ (Building Emotional Engagement) training and certification program for front-line and support staff across Singapore, Malaysia and China. We also launched a new programme to develop service coaches as an integral part of our training roadmap to achieve our service excellence mission.

During the year, 171 of our employees won the Excellent Service Award in the Silver, Gold, and Star categories. This national award managed by the *Association of Banks in Singapore* and *SPRING Singapore* recognises individuals for delivering outstanding service to customers. One of our staff from Transactional Banking clinched the highest honor in the banking and financial services sector by winning the SuperStar Award.

PROPERTY MANAGEMENT

Our office and residential investment properties, with an aggregate of approximately two million square feet of net lettable area, achieved full or near full occupancy in 2008.

We completed the upgrading of 23 branches in 2008 under our branch transformation programme, including our flagship branch in OCBC Centre. In line with our commitment to be environmentally responsible, we have also launched several "Go Green" initiatives. These include the use of NEWater in our central air-conditioning chiller systems and sculpture water feature, various energy saving measures, tenants' education, recycling initiatives as well as the use of environmentally friendly products in our renovation and maintenance works.

GROUP HUMAN RESOURCES

Our Group staff strength, including Bank OCBC NISP and Great Eastern Holdings, was 19,900 as at the end of 2008, an increase of 6% from 2007. Most of the increase was in Malaysia, Indonesia and China, our designated New Horizons II target growth markets.

We continue to invest in our people and develop talent within the Group through our training and career development programmes. We expanded our training facilities in Singapore and Malaysia, and invested in virtual classroom technology to provide a more global reach for our training programmes. Average training man-days per employee in 2008 was well above our target of five man-days. The *OCBC Executive Development Programme*, launched in 2007 to train and develop our future leaders, was extended to our employees from Bank OCBC NISP and Great Eastern Holdings.

Our employee engagement score improved from the previous year and has increased 29% since our first survey was conducted in 2002. Our employee share ownership schemes received encouraging participation bankwide; the percentage of bank employees who are OCBC shareholders increased to 53% (including the share options and deferred shares) at the end of 2008, above our minimum target of 30%. The third offering of the *Employee Share Purchase Plan* in July 2008 achieved a high participation rate with the number of participants increasing by 88% over the previous Plan. For the first time, the plan was extended to our employees in China, Vietnam, Brunei and Great Eastern Holdings.