



We are focused on...



Customers and Products

We are conducting extensive market research and surveys so as to develop innovative products to meet customer needs and expand our customer base.

Operations Review

2002 marked the first full year of operations of the enlarged OCBC Group following the successful integration of Keppel Capital Holdings (KCH) and its subsidiaries. Despite a challenging operating environment, with Singapore just emerging from its worst recession since independence, the management and staff of OCBC Group continued to work hard to strengthen the Group's position in its key markets, taking advantage of the merger synergies, improving efficiency, and above all, understanding customers' needs and serving them better. These efforts have paid off to some extent, as seen in the underlying 26% growth in the Group's operating profit compared to 2001, as well as gains in market shares in some of our key business segments.

In October 2002, we unveiled a new global organisation structure aimed at enhancing our customer focus and product innovation, streamlining reporting, and providing a stronger growth platform. Previously our operations tended to be organised along geographic divisions and legal entities, which did not fully utilise the sharing of strategies, experiences and resources. Under the new structure, our customer, product and support function heads have global responsibility for their respective areas, while geographic heads have stewardship responsibility. The following sections provide a review of our operations in 2002 under the new structure, focusing on the key customer, product and geographic groupings.

Consumer Banking

Our efforts to reach out to the more than one million consumer customers we serve in Singapore paid off handsomely as we gained market share in several key consumer segments. We continued to make improvements to our sales and service capability as well as our domestic network which comprises 62 bank branches, 309 ATMs, 79 cash deposit machines, phone banking, Internet banking and call centre services. By the end of 2002, we have completed the reconfiguration of 52 of our bank branches, with the remainder expected to be completed by mid-2003. New generation touch-screen ATMs and passbook updating machines with display capability were introduced. We also upgraded our marketing platform through the use of new marketing analytical tools, development of our customer data mart and building up marketing campaign management capabilities.

One of the areas that did us proud was bancassurance, or the distribution of insurance products through bank

channels. Already the dominant player, we achieved a remarkable 56% growth in sales premiums to S\$1 billion, increasing our bancassurance industry market share from 39% in 2001 to 45% in 2002. This performance was helped by the popularity of new products launched in 2002, such as the US Dollar and Singapore Dollar Guaranteed Return Plan, which were fully subscribed, and regular premium products such as MaxSave+. We also successfully implemented OCBC Bank's Financial Planning System that has on-the-spot electronic underwriting and approval feature, a first in Singapore.

The volatile stock market did not dampen our drive to be a "best of breed" investment solutions provider. Our unit trust sales chalked up a strong 38% growth to S\$1.1 billion in 2002, as we continued to offer our customers a wide choice of OCBC-managed as well as third party unit trusts. Having achieved an estimated market share of 30% for new fund sales in 2002, OCBC Bank is now a leading distributor of unit trusts in Singapore. We also remained the dominant player in distributing capital protected products with an estimated 40% market share. With combined sales of over S\$2 billion in bancassurance and unit trust products in 2002, we aim to maintain our lead in the wealth management business and offer high quality products which meet the needs of our target customers.

Competition was intense in the consumer lending business but we emerged stronger in several key segments. In the private home loan segment, our attractive loan packages for both fixed- and variable-rate loans, coupled with efficient loan processing and excellent sales service, helped us attain the number one position in terms of new loans booked, based on caveats lodged. We booked a total of S\$3.4 billion of new housing loans in 2002, a 61% jump over the previous year. With our large base of housing loan borrowers, our renovation loans also witnessed strong growth of 60%.

With the opening up of the financing for public (Housing Development Board) flats to the commercial banks with effect from 1 January 2003, OCBC aims to be the preferred bank for HDB home owners as well. In December, we opened a new branch at the HDB hub in Toa Payoh estate to make it more convenient for HDB home buyers to make enquiries and apply for our competitive HDB loan package. The new branch, which complements another two branches within walking distance, offers the longest extended

banking hours and is equipped with a full range of self-service banking facilities, in addition to the personalised services of our customer service officers and tellers.

We continued to build on our strong presence in the market for new car financing, a segment which the Bank entered into in 2000. We booked more than S\$1 billion of new car loans in 2002, a 78% increase over 2001, helped by the introduction of customised financing packages, our strong tie-ups with car dealers, and our quality service standards.

The customer base for our unsecured personal revolving credit product, Prestige Credit, increased by 20% in 2002. Our credit card base also expanded significantly to approximately half a million cards by the end of 2002, following the launch of the co-branded OCBC Robinsons credit card in November. The new card, which can be used at all Visa establishments, was well received by the large and loyal customer base of the Robinsons retailing group, which comprises the Robinsons, Marks & Spencer and John Little department stores.

Our consumer business also includes community lending which targets small business enterprises such as sole proprietorships and partnerships. In this area we garnered the top spot for the Micro Loans product which is administered by SPRING Singapore and has the participation of more than 20 financial institutions. We were able to add value to our customers by offering flexible interest repayment terms.

In the area of Private Banking, we focused on raising brand and market awareness by strengthening the referral network and holding value-added investment workshops for clients. Our range of financial products for private banking clients was expanded to include hedge funds, private equity and tax-advantaged and retirement products. We also re-organised our relationship management and customer service teams to serve clients better.

Our stockbroking subsidiary, OCBC Securities, performed satisfactorily in a tough environment which was marked by languishing trading volumes on the stock market and lower commission rates. Our equity derivatives business enjoyed strong growth, from S\$200 million in issuances in 2001 to S\$500 million in 2002, as new innovative products were marketed to customers. In July we pioneered the launch of the Relative Outperformed Call Warrants with Knock-out

(or “Rock”) on the SGX, an instrument that allows investors to benefit from changes in the relative prices of two equities. OCBC Securities also completed the integration of the former UBS Warburg & Associates (Singapore) and Keppel Securities in 2002, while its merger with OCBC Bullion & Futures was completed in January 2003.

The year saw further growth and usage of our electronic banking channels, which account for approximately 80% of all customer transactions. Our consumer Internet Banking user base rose from approximately 80,000 to 140,000. finatiQ.com, our stand-alone online bank for consumer customers, enjoyed a 33% increase in electronic transactions. Several new services were rolled out throughout our electronic network, including the online purchase of travel insurance, direct debit online purchase of products and services, and new touchscreen ATMs.

Business Banking

Group Business Banking services the small and medium enterprises (SMEs), large corporates, real estate companies, government and institutional customers from key markets including Singapore and Malaysia. Apart from offering various financial solutions and investment products to these customers, Business Banking also partners closely with the product groups to cross-sell foreign exchange services, capital markets and trade finance products, as well as cash management, trustee and custodian services.

The four departments within Business Banking fared well in 2002 despite the soft economic conditions and dampened corporate loan demand. They remained focused on the division’s three main objectives: deepening existing relationships, building a strong sales culture to acquire new relationships, and building new product capabilities in order to grow fee-based income. The Wholesale Corporate Marketing department, which manages customers with annual turnover of more than S\$150 million, posted a hefty 60% increase in fee and commission income as well as significant growth in its fixed deposits, as it successfully cross-sold products such as cash management and structured trade products to its customers.

The Real Estate department was instrumental in arranging several deals for our corporate clients, either as a joint arranger or sole arranger. The joint deals OCBC Bank arranged included a S\$300 million facility for Riverwalk Promenade Pte Ltd, a S\$210 million facility for Everbilt Developers Pte Ltd

Employees, Productivity and Risk Management

We value our employees and are investing in their development to encourage their commitment to OCBC. We are building a quality culture to improve service levels and drive down unit costs. We are strengthening our risk management to ensure our portfolio remains sound.

and a S\$260 million facility for RCMS Properties Pte Ltd (a unit of Ritz Carlton Millenia). We were also the sole arranger and underwriter for a S\$105 million syndicated facility for Guthrie GTS Ltd.

The Financial Institutions department maintains a comprehensive international correspondent banking network to support the Bank's requirements for payments settlement, trade transactions and customer remittances. During the year, we actively developed strong partnerships with banks, central banks, and supranational organisations globally, and also established new relationships with finance, insurance, asset management companies and other non-bank financial institutions.

We continue to be a leading banker to local SMEs. More than one-third of local SMEs have banking relationships with OCBC, including 58% of the "Enterprise 50" SMEs in Singapore. We have introduced greater industry specialisation among our relationship manager teams to serve our SME customers better. Our substantial SME customer base also made it possible for us to introduce new financing and wealth management products to SMEs and their owners. The Enterprise Banking department, which manages our SME customers, assisted three SMEs in launching their IPOs on the Singapore Exchange during the year.

Investment Banking

Group Investment Banking, comprising the Capital Markets and Corporate Finance departments, works closely with Group Business Banking to develop products and services to meet customers' requirements.

OCBC Bank was ranked the Top Arranger of Singapore Syndicated Loans in 2002 by Thomson Financial Services, for the second year running. We were involved in a broad spectrum of transactions not only in terms of size, structure and complexity but also in the diversity of sectors, including hotels, property, commodities, electronics manufacturers and trading companies. A notable deal was the S\$150 million three-year financing facility for Ascendas REIT, Singapore's first syndicated loan for an industrial property real estate investment trust.

We underwrote and managed several fixed-rate bond issues by Singapore statutory bonds, government-linked

companies and other corporations. Notable transactions in 2002 include Tuas Power Ltd's seven-year fixed rate note which was increased from S\$300 million to S\$400 million due to heavy demand, and Fraser and Neave Ltd's S\$1 billion Medium Term Note programme, which included the first series of S\$300 million five-year fixed rate notes. We also arranged a S\$335 million 10-year single asset securitisation transaction for Sengkang Mall Ltd, a special purpose funding vehicle used to finance the acquisition of Compass Point shopping mall.

Leveraging on our strong SME clientele, OCBC Bank sponsored the initial public offers for two established contract manufacturers, MFS Technology and Semitech Electronics, and an infrastructure specialist, OKP Holdings.

We also secured several financial advisory mandates in 2002. OCBC Bank acted as the financial adviser for SembCorp Industries in the divestment of its entire stake in Singapore Food Industries, and as manager for the rights issues by GuocoLand (formerly known as First Capital Corporation), LC Development and Sin Soon Huat. In addition, we were the financial adviser in the takeovers of Centrepoint, Times Publishing, Lung Kee Metal and Ssangyong Cement. We also acted as independent financial adviser to Wah Shing for its acquisition of a business from an interested party and as an adviser to Guthrie for its acquisition of an Indonesian hotel-cum-property-related company.

Transaction Banking

Our cash management, trade finance, trustee and nominee services were consolidated under the Transaction Banking division in October 2002 so that we can provide comprehensive transaction-related services to corporate clients.

Since its inception in early 2000, our cash management team has secured numerous mandates from SMEs, large corporations and government entities, helped by the popularity of our award-winning electronic cash management system, Velocity@ocbc. We achieved significant success in 2002, with the number of on-line corporate customers increasing by 54%, and transaction volumes on Velocity@ocbc rising exponentially. We rolled out additional trade and foreign exchange modules in Velocity@ocbc, allowing customers to automate their trade processing documentation and execute their foreign exchange contracts with greater convenience.

Singapore and Malaysia Markets

We are exploiting our extensive network in Singapore and Malaysia to build market share and become more established in both countries.

In recognition of Velocity@ocbc, OCBC was named the Best Corporate/Institutional Internet Bank in Singapore as well as in the Asia-Pacific in 2002 by US-based *Global Finance* magazine. This also marks the second year that we were named Singapore's best in this category.

OCBC Bank was one of the pioneer banks in the consortium that launched iQB, a multi-bank on-line payment gateway that enables merchants to widen their customer reach and receive payments over the Internet safely and efficiently. With this, we are able to provide further support to the eCommerce initiatives of our corporate customers. In 2002 we also became one of the 68 members of the Continuous-Linked Settlement (CLS) system, placing us on an equal footing with major international banks in the foreign exchange market. The membership enables us to settle cross-border multi-currency transactions intra-day on a payment-versus-payment basis, thereby eliminating settlement risk caused by delays arising from time zone differences. In connection with this, we formed a joint venture with DBS Bank and United Overseas Bank – Clearing and Payments Services Pte Ltd – to create a shared utility for processing CLS transactions.

Trade fee and commission revenue increased significantly by 65% as a result of the merger with Keppel TatLee Bank as well as aggressive marketing efforts by our trade finance team. The team was successful in securing several high value mandates and new trade relationships during the year.

Asset Management

OCBC Asset Management, our fund management arm, has expertise in Asia-Pacific equities, global fixed-income securities and global asset allocation. Through alliances with leading international institutions, it also provides global equities management.

We were one of the biggest winners in the Singapore Investment Funds Awards 2001 held in February 2002, where we won seven awards. During the year, we launched five capital protected funds in response to strong customer demand in an environment of high stock market volatility and very low interest rates. We were the first to launch capital protected unit trusts that offer investors periodic payouts during the life of the funds. We now have a comprehensive family of funds to meet our customers' investment needs. Our equity products include Asian country and regional funds, and global sector, country and index funds. Fixed income products include Singapore and

global bond funds. We also offer balanced funds, money market funds and a range of asset allocation funds to meet the various risk-return profiles of investors.

With the integration of Keppel Investment Management, we manage 49 unit trusts with assets of S\$1.3 billion as at the end of 2002, making us one of Singapore's largest unit trust fund managers. Including institutional clients, we had S\$3.6 billion in total assets under management and administration as at the end of 2002.

Treasury

Group Treasury engages in foreign exchange activities, money market operations, fixed income and derivatives trading, as well as customer-driven derivatives business. OCBC's treasury operations are located in Singapore, Kuala Lumpur, Hong Kong, London and Sydney.

A key strategic initiative in 2002 was to develop more customised treasury products that meet the investment and wealth management needs of various categories of corporate and individual clients. Products launched include foreign exchange-linked deposits, equity-linked deposits and bond-linked deposits. There has also been greater emphasis on providing customised risk management solutions for our clients by using off-balance sheet financial instruments such as swaps, foreign exchange options and interest rate options. These solutions range from plain vanilla products to highly structured solutions tailored to meet specific risk management needs. We also established an equity derivatives desk to manage the risks relating to equity-linked products.

OCBC remains a key market maker in the Singapore Government Securities market, and in 2002 we took steps to streamline and raise the profile of our non-government fixed income trading business. With the enlarged customer base and dealing team after the integration of KCH, we have also been more active in the Singapore Dollar (SGD) derivatives market. OCBC was ranked the Top SGD Forward Rate Agreement (FRA) Bank in AsiaRisk's eighth annual inter-bank derivative survey for the year 2002.

Malaysia

Our operations in Malaysia are supported by an extensive network of 25 branches in major cities throughout the country. The third largest foreign bank in Malaysia by assets, we serve approximately 400,000 individual and 40,000 corporate customers.

Overseas Expansion

We intend to transfer the more successful customer and product solutions developed in Singapore and Malaysia to other overseas markets in ASEAN and China within the next two years.

Our programme to enhance our banking facilities and services in Malaysia continued in 2002. By the end of the year we have reconfigured 20 of our branches, providing customers with a functional layout and convenient banking. We have also built up a network of 10 Premier World centres offering personalised banking services to our high net worth customers. In March we launched our retail online banking service known as eCafe (e-Customer Activated Financial Experience).

In consumer banking, we enjoyed robust growth in two important segments, housing loans and wealth management. Our outstanding housing loans in Malaysia surged by 28% to RM3.65 billion as at 31 December 2002. Customers responded favourably to the two products we introduced during the year, an eight-year fixed rate package introduced in May, and a five-year fixed rate package introduced in August. In the area of wealth management, we launched two new unit trusts, 'Invest & Relax' in April and 'Maximiser II' in September, achieving sales of close to RM180 million by the end of the year. We also launched the Great Eastern Lion Golden Dividend Plan and achieved sales premiums of RM342 million for this product.

Our support of the business community was recognised when we received the Sahabat SMI (Friend of SMI) Award in the foreign bank category from the SMI (Small and Medium Industries) Association of Malaysia. In April we launched the SME Flexi Plus, an enhanced loan package offering attractive three-year repayment and specifically geared towards customers who wish to refinance their loans. Our various loan packages for SMI customers brought in RM700 million of loan approvals during the year. We also launched various cash management products for corporate customers, such as Auto Credit/Debit & Payroll System and Velocity@ocbc.

We have been supportive of government initiatives, such as efforts to promote Malaysia as a regional Islamic financial centre. OCBC Malaysia's Islamic Banking arm complies fully with Syariah principles and offers 14 products, accounting for one-third of all Islamic Banking products in the market. We also have a dedicated Bumiputera Development Unit to support government initiatives to promote Bumiputera industrial activities.

During the year we organised numerous educational and business seminars to introduce customers to our wide range

of financial services. We take pride in being the first commercial bank in Malaysia to conduct tele-conference seminars for Treasury customers, which allowed us to reach clients in far-flung locations around the country simultaneously. We participated in the Malaysia Chinese Businessmen Forum and several exhibitions to market our products. We also tapped on our strategic alliances with insurance companies to provide business referrals.

Reflecting OCBC Malaysia's sound financials, asset quality and risk management, the Rating Agency of Malaysia upgraded our long-term general bank rating from AA2 to AA1.

International

International Division manages our network of overseas branches, banking subsidiaries and representative offices outside of Malaysia, in 25 cities. Our International operations serve mainly clients from our core markets in Singapore and Malaysia when they invest overseas. In addition, our overseas network will play an important role in product distribution under the new global organisation structure and the New Horizons strategy.

In early 2002, we successfully integrated the former overseas branch operations of Keppel TatLee Bank into the respective OCBC branch network. In March 2003, we merged our two joint venture banks in Indonesia into a single entity under the name of PT Bank OCBC Indonesia, with OCBC holding a 99% share.

Taking advantage of the on-going financial liberalisation in China, we sought and received approval to expand our Renminbi licence in Shanghai. The new licence permits our Shanghai branch to carry out foreign currency transactions with both local and foreign entities. In addition, we can now transact in Renminbi with foreign enterprises and individuals in a larger number of cities, namely Shanghai, Zhejiang, Jiangsu, Shenzhen, Tianjin, Dalian, Zhuhai, Guangzhou, Wuhan, Qingdao and Nanjing.

Operations and Technology

2002 saw the completion of two key projects led by Group Operations and Technology, involving staff across the Bank. The first was the operational integration of Keppel TatLee Bank's backroom operations and technology systems. Full integration was achieved on 25 February, within six months of the acquisition of KCH and well ahead of our original schedule.

The second major project was the migration of our core banking system from the Tandem system to the new Silverlake Integrated Banking System. Completed in November, the new system allows us to deliver innovative products to our customers with a shorter turnaround time. This is possible as the Silverlake system is more flexible, cost effective and enhances product delivery and transaction processing capabilities.

We also developed and enhanced several systems to facilitate information gathering. The Global Data Warehouse facilitates our analysis of customer and product profitability, and provides useful marketing information. Initiatives to extend the functionalities and reach of our Customer Relationship Management (CRM) system are also ongoing. One such project is the analytical marketing project which uses enhanced data sets and sophisticated analytical tools and techniques to generate more targeted leads for cost-effective campaigns.

A new integrated Financial Planning System was implemented for all our personal financial consultants to improve our financial planning service to our customers. This system goes beyond identifying shortfalls and gaps of a customer's financial goals to recommend appropriate products that best suit the customer's financial risk appetite and goals. It is tightly integrated into the CRM framework for total relationship management. An immediate follow-up phase is to build straight-through-processing capabilities for insurance purchases with our associated insurance company, Great Eastern Holdings. With this integration, customers purchasing insurance products at OCBC branches receive immediate results of their underwriting proposals, a vast improvement from the previous three-day wait for manual submissions and underwriting.

Our backroom systems were also upgraded to increase efficiency and reduce costs. Our financial and human resources systems were enhanced using the Oracle E-business Suite, helping to reduce manual processing work and improve staff productivity. The integrated system assists managers to make decisions quickly as information is more readily available.

In other operational areas, we implemented outsourcing of cheque clearing as well as outsourcing of messenger service for branches, in the process freeing up significant

headcount. Various operation systems used by Treasury, OCBC Asset Management and OCBC Securities were also upgraded during the year.

Property Management

OCBC Property Services manages the properties of the Group. It ensures that the rental returns and capital values of our investment properties, amounting to 2 million square feet net lettable area, are optimised. Achieving this result requires active marketing, maintenance of the quality of the properties, and cost consciousness.

Despite a difficult environment, our retail properties achieved full occupancy at prevailing market rentals. Our commercial and residential properties, however, were affected by the over-supply in these sectors. While our Group head office building achieved nearly full occupancy, the results for other properties were mixed.

Human Resources

Arising from the staff rationalisation and optimisation following the merger with KCH, our Group staff strength fell by 1,090 or 12.7% during the year, to 7,477 as at 31 December 2002.

As part of our succession planning and staff retention programmes, we introduced several initiatives, such as training managers to conduct performance coaching, and encouraging employees to manage their own career development through self-initiated internal job transfers. We continually ensure that our compensation packages are competitive in the market place so that we can attract and retain talented staff. We also adopted the National Wage Council's recommendations and became the first local bank to incorporate a monthly variable component into the salaries of employees of Class II officers and below.

Understanding that employee satisfaction and motivation are indispensable to our organisation's performance, we conducted a detailed group-wide staff survey to identify employee satisfaction issues. After communicating the results to our staff, we are now taking meaningful follow-up actions in response to the findings, making sure that staff are involved in the planning and execution of initiatives. Apart from the survey, which will be conducted annually, employee focus groups and CEO luncheons are held regularly to obtain feedback and deliver prompt responses to staff concerns.

Placing great importance on continuous training, we spend up to 2% of payroll on staff learning programmes in 2002. The emphasis in 2002 was on acquiring or refreshing sales, customer service and financial advisory skills. Twelve thousand training places were provided to help OCBC and ex-Keppel TatLee Bank staff integrate smoothly into the enlarged entity by introducing them to the latest systems, products and services in the bank. In total, 46% more training places were provided and our staff spent 23% more time on training than in 2001.

Corporate Citizenship

As a socially responsible corporate citizen, OCBC Bank has always played an active role in supporting the communities it operates in.

Under the OCBC Bank Care Card programme introduced in 1997, we contribute to eight selected charities a percentage of the charges made by Care credit card members. These charities include the Bone Marrow Donor Programme, Catholic Welfare Services, Handicaps Welfare Association, Kwong Wai Shiu Hospital, Singapore Association for the Deaf, Singapore Association of the Visually Handicapped, Singapore Children's Society and Touch Community Services.

In support of academic excellence, we have been sponsoring OCBC Book Prizes for tertiary educational institutions every year since 1988, supporting the National University of Singapore, Nanyang Technological University, Ngee Ann Polytechnic, Singapore Polytechnic and Temasek Polytechnic. In December, we initiated an internal charity drive among staff and raised S\$35,000 for The Straits Times Pocket Money Fund for needy schoolchildren.

OCBC is a keen supporter of the Arts in Singapore. We have been a major sponsor of the Singapore Arts Festival for the last eight years, working closely with the National Arts Council to support local talent and bring in renowned artistes and groups from overseas to broaden the cultural experience in Singapore. Since 1995, we have contributed S\$4.5 million towards developing the local Arts scene. In 2002, OCBC Bank was awarded the Distinguished Patron of the Arts for the fourth consecutive year. This award is the highest recognition conferred by the National Arts Council on individuals or organisations who have contributed at least S\$1.5 million to major Arts projects within five years.