

## New Horizons

The New Horizons strategy was our three-year plan, announced in February 2003, through which we set out to deliver international growth and improve the overall performance of OCBC Bank. Our objectives were as follows:

### Seek International Growth

- Strengthen our market position in our two existing core markets of Singapore and Malaysia, and use this as a platform to transfer successful business models and product solutions to other ASEAN countries and China
- Establish a presence in a third country in 2005, and be poised to add another country by 2006

### Build a High Performance Bank

#### Customers

- Rapidly expand our customer base
- Become a Top 3 consumer and SME bank in the combined Singapore-Malaysia market by 2005

#### Products

- Build best-in-class products and target 15% revenue contribution from new products annually
- Strive to be Top 3 in wealth management, transaction banking, treasury and investment banking in the combined Singapore-Malaysia market

#### Risk Management

- Build our consumer and business loan books prudently
- Continually improve our credit processes to maintain a sound credit portfolio and a strong credit rating

#### Productivity

- Invest in cross-functional process improvement to lower our unit costs and become an efficient, low cost service provider

#### People

- Actively invest in training and career development
- Offer employees new share ownership schemes to encourage at least 30% of them to become shareholders by 2005

#### Shareholder Value

- Strive to achieve 10% earnings per share growth annually, a minimum dividend payout of 35% of core earnings, and a 12% ROE by 2005
- Seek to swap non-core assets for core financial services growth opportunities
- Return excess capital to shareholders via share buyback programmes

# Report Card 2005



## Customers

- OCBC among Top 3 consumer banks in the combined Singapore - Malaysia market
- Maintained #1 bancassurance position in Singapore
- Customer analytics contributed 20% of wealth management sales
- Launched 15 new products with GEH
- 8% increase in revenues from large corporate business
- 9% increase in number of SME customers
- Introduced 8 SME lending programs offering asset-based financing and targeting industry segments
- Cross-sell ratio for SME business improved 89%

## Products

- Launched 61 new products
- Wealth management product sales grew 18%
- Customer-related treasury revenues rose 21%
- Lion Capital Management formed through merger of OCBC Asset Management and Straits Lion Asset Management
- Ranked #2 for Singapore Dollar FRAs in *AsiaRisk's* 2005 Interdealer Survey
- Ranked #1 in Singapore syndicated loans league table (by value)
- Awarded Best Bond House (Singapore) 2005 by *FinanceAsia*
- Awarded Best Trade Finance bank in Singapore by *Global Finance* magazine
- Awarded Singapore Loan House of the Year 2005 by *IFR Asia*

## Risk Management

- Fitch rating upgraded to AA-; maintained ratings of Aa3 by Moody's and A+ by S&P
- NPL ratio improved from 5% to 4.1%
- Allowance coverage ratio improved from 83% to 88%
- Established Whistleblowing Programme

## Productivity

- Unit costs reduced by average 8% across 10 product lines
- Executed 9 process improvement projects; S\$27m margin improvement realised
- Malaysian mortgage process an award-winner in the Operational Efficiency category of Asian Banking Awards 2005

## People

- 374 employees completed *Career Best* training
- Percentage of performance linked compensation grew 17%
- 29% of employees now shareholders, inclusive of participants in deferred share and share purchase plans
- Overall employee engagement score in *OCBC Employee Survey* improved 11% from 2004 to 2005
- Launched *OCBC Flexible Benefits Program* in Malaysia

## Shareholder Value

- Core EPS grew 24%
- Total dividends increased 45% to 23 cents, payout ratio 44% of core earnings
- Achieved 11.7% cash ROE
- Tier 1 and total CAR of 13.2% and 17.3%
- Raised S\$400m hybrid Tier 1 preference shares in Singapore, and RM400 million Tier 1 preference shares in Malaysia
- Bonus cash dividend and 1-for-5 rights issue
- Launched second S\$500m share buyback programme; executed S\$453 million of buybacks in 2005
- OCBC share price rose 19%, outperforming peers

## Overseas Expansion

### Malaysia

- 64% increase in credit card base
- Home loans grew 12%
- Sales of structured investment products increased ten-fold
- Ranked #1 in number of issues for syndicated loans and fourth in number of ringgit-denominated private debt securities

### Indonesia

- Launched joint ATM cash withdrawal service with Bank NISP
- Transferred cash management/trade services capability to Bank NISP with *Velocity@nisp* launched
- Distributed Great Eastern "key man" insurance products to Bank NISP's SME customers

### China

- Invested in 12.2% stake in China's Ningbo Commercial Bank (pending completion in mid-2006)
- Grew consumer business organically in selected regions, targeting wealth management services to the mass affluent segment

### Asean

- Opened first Islamic offshore branch in Brunei

## Three Rewarding Years for Our Stakeholders

With 2005 being the last year of our three-year New Horizons strategy, it is opportune for us to highlight, over the next few pages, some of the performance improvements we have accomplished for our key stakeholders - our customers, our people and our shareholders.

# Awards and Accolades



Best Domestic Commercial Bank in Singapore 2003  
Ranked 1st (Singapore) and 2nd (Asia) in  
Corporate Governance Survey 2003



Winner – Operational Efficiency Programme 2005  
Winner – Operational Efficiency Programme 2004



Best Practice ATM Deployment Award in the  
Financial Institution Category 2004



Best Bond House 2005



Best Trade Finance Bank in Singapore 2005  
Best Corporate/Institutional Internet Bank in Malaysia 2005  
Best Bank in Singapore 2004  
Best Corporate/Institutional Internet Bank in Singapore 2003  
Best Online Cash Management Bank in Singapore 2003



Winner – Intelligent Enterprise Asia Awards 2004



Singapore Loan House of the Year 2005



Asia Pacific Retail Bank of the Year 2004  
Southeast Asia Retail Bank of the Year 2004



Best Bottom Line IT 2005



Most Transparent Company (Finance) 2005  
Ranked 3rd in Singapore Corporate Governance Awards 2003



Winner of 2 awards in S&P's Singapore Funds Awards 2005  
Winner of 5 awards in S&P's Investment Funds Awards 2004



Best Domestic Bank in Singapore 2003  
Top 3 among Best Credits in Singapore 2003



Ranked #1 in Corporate Transparency Index 2004



Winner of 6 awards in The Edge-Lipper  
Singapore Fund Awards 2004  
Winner of 10 awards in The Edge-Lipper  
Unit Trust Fund Awards 2003



## Our Customers

Our efforts to understand our customers' needs, combined with product innovation, process improvements and the forging of strategic partnerships, have strengthened OCBC's position as a leading consumer and SME bank in Singapore and Malaysia.

### Knowing What Customers Want

Through extensive market research and customer surveys, we gained better understanding of our customers' needs and deployed these unique insights to improve our products and services.

A good example is the launch of the Chinese version of *Velocity@ocbc*, our award-winning corporate internet banking platform, to better support our Mandarin-speaking SME customers. We also launched *Velocity@ocbc* in Malaysia, and worked with Bank NISP to launch its local version, *Velocity@nisp*.

In response to feedback from our corporate customers, we also re-engineered our trade processes and won industry recognition for achieving the best cut-off times with same day processing for trade products.

### Delivering Competitive Products

We maintained our leading position in wealth management in Singapore. Our popular 10/10 fixed deposit account was Singapore's first term deposit offering tiered interest rates, while our *A1 Structured Deposit* was the first with a one-year maturity.

We launched co-branded credit cards with NTUC, Best Denki and IKEA as well as the *Titanium* card, catering to the different lifestyles and spending patterns of our customers.

To better serve different SME segments, over the past three years, we launched 28 lending programmes offering asset-based finance products and targeting industry segments.

### Banker to the Community

By tying up with selected partners, we are better able to fulfill our role as banker to the community. For example, our close partnership with NTUC has given more than 440,000 union members exclusive benefits and convenience with our *NTUC-OCBC Visa Debit and Credit Card*, financial help with our no-fee *NTUC-OCBC Super Saver Programme* and education with our *NTUC-OCBC MoneyWise Programme*.

### Partnership with Great Eastern Holdings

Our partnership with Great Eastern Holdings, which became a subsidiary in 2004, allowed us to tap into their 1.5 million policyholder base in Malaysia. Through Great Eastern's agency force, we now reach out to these customers by offering them OCBC credit cards and housing loans. Including Great Eastern Holdings, OCBC is now one of the top three consumer financial services providers in the combined Singapore and Malaysia market.



## Our People

Our employees are vital to the success and future growth of OCBC. We invest extensively in their development through training and career planning programmes, so that they can achieve their full potential and have fulfilling careers at OCBC.

### Building a Fulfilling Career in OCBC

We encourage our employees to take charge of their careers. Our *Career Best* training programme, launched in 2002, helps our employees to evaluate their strengths and career orientation, and to find the best fit between their talents and OCBC's needs. We also introduced an internal job-posting programme whereby our employees are given the first opportunity to learn of and apply for job openings within OCBC. By allowing employees to make a job switch within OCBC, we help broaden their job experience and provide them with the incentive to sustain a long-term career with OCBC.

### Rewarding High Performers

To support our goal of building OCBC into a high performance bank, we embrace a performance-based compensation philosophy. Our compensation programmes remain market driven and are designed towards rewarding our high performers through increasingly differentiated incentive compensation schemes.

### Increasing Employee Share Ownership

We encourage our employees to own shares in OCBC because we believe this instills a strong sense of alignment with the long-term growth of OCBC. Such share ownership programmes have also been useful in attracting and retaining talent, which is vital to improving our performance and creating greater value for our shareholders. Today, 29% of the Bank's employees are OCBC shareholders, including those participating in our deferred share and share purchase schemes – a significant increase from 6% in 2002.

### Flexible Staff Benefits

We recognise that our employees have individual preferences when it comes to staff benefits, and these cannot be met with a one size fits all approach. We were one of the pioneers among Singapore corporations when we launched the *OCBC Flexible Benefits Programme* in January 2004, which allows our employees to customise their benefits to meet their individual requirements.

### Improved Employee Engagement

Our efforts to create a vibrant working environment for our employees have not gone unappreciated - the engagement score from our annual *OCBC Employee Survey* has improved 52% since the first survey was launched in 2002.

Investing in our employees  
so that they can reach new  
heights in their careers  
at OCBC





## Our Shareholders

Executing our growth strategy, improving earnings and actively managing our capital have contributed to our share price outperforming our peer group over the last three years.

We delivered average earnings per share growth of 23% per annum (excluding divestment gains) in 2003 to 2005 – double our 10% target. Gross dividend per share increased by 176% over the three-year period, and our dividend payout rose from 30% in 2002 to 44% in 2005 – exceeding our 35% minimum payout target. Our ROE improved from 7.4% in 2002 to 11.4% in 2005, just below our 12% target.

### Efficient Capital Management

To enhance our capital efficiency and ROE, we raised a total of S\$1.3 billion of Tier 1 perpetual preference equity and hybrid capital in the last three years. These alternative forms of capital now constitute 14% of our Group Tier 1 capital.

Since 2003, we have returned more than S\$2.5 billion in excess capital to our ordinary shareholders, accomplished through a special dividend, two selective capital reduction exercises and two share buyback programmes. This is over and above the S\$1.2 billion of ordinary dividends declared for financial years 2003 to 2005.

Last year, we declared a S\$1.3 billion one-off bonus dividend in combination with a 1-for-5 rights issue, offering shareholders an option to use the bonus dividend to fully pay for their rights entitlement. Shareholders who exercised the option in effect received a free OCBC share for every five shares held. This initiative, combined with the 2-for-1 stock split exercise, has enhanced the affordability of each lot of OCBC shares for smaller investors. It has also allowed us to pass on substantial Section 44 tax credits to shareholders before these credits expire by end-2007.

### Reinvesting Divestment Gains

From 2003 to 2005, we executed seven major divestments of non-core assets, and effectively swapped the gains of S\$301 million into investments in core financial services, through our acquisitions of Bank NISP in Indonesia and a proposed stake in Ningbo Commercial Bank in China (pending completion in mid-2006).

### Strong Capital Position

Despite the substantial increase in ordinary dividends, return of excess capital and two key acquisitions during this period, our capital adequacy ratios remained the strongest among the local banks, at 13.2% (Tier 1) and 17.3% (Total CAR) as at 31 December 2005.

### Rewarding Share Price Performance

In turn, the market has recognised and rewarded our efforts. Over the three-year period from end-2002 to end-2005, OCBC's share price has outperformed our peers – registering a cumulative price increase of 67%. If net dividends received were included, we recorded a total shareholder return of 80%.



Working hard for our  
shareholders so that they  
can enjoy the finer things  
in life