

## Operations Review

2005 marked the final year of our three-year New Horizons strategy. We achieved good results in our customer and product segments, despite intense competition and a challenging interest rate environment. In Malaysia in particular, we continued to increase our market share and delivered strong earnings growth.

Major strategic milestones achieved during the year included raising our stake in Indonesia's Bank NISP to 72.3%, and reaching an agreement to acquire a 12.2% stake in China's Ningbo Commercial Bank. These moves will open up new frontiers of regional growth for OCBC as we continue to expand outside our mature domestic market. Our asset management business was merged with Straits Lion Asset Management to form Lion Capital Management, a subsidiary of Great Eastern Holdings and one of the largest asset management companies in Southeast Asia.

Our focus on delivering innovative products and services to meet our customers' needs has garnered us industry recognition. In 2005, we were named Best Trade Finance Bank in Singapore and Best Corporate/Institutional Internet Bank in Malaysia by *Global Finance*, Best Bond House by *FinanceAsia*, and Singapore Loan House of the Year by *IFR Asia*.

### CONSUMER FINANCIAL SERVICES

Our consumer banking business in Singapore and Malaysia delivered healthy results in 2005 amidst a generally positive economic environment in both markets. On a global basis, Group Consumer Financial Services achieved 19% growth in net profit to S\$365 million in 2005, driven by higher revenues as well as lower loan allowances.

We maintained our leadership position in Singapore and Malaysia wealth management sales, achieving combined sales of S\$10.1 billion in 2005, up 18% from S\$8.5 billion in 2004. In Singapore, OCBC continues to be the leading distributor of bancassurance products with a 37% market share. While sales of single premium products were less buoyant in 2005 due to the rise in deposit rates and the flat interest rate yield curve, our regular premium product sales grew a robust 92%, helped by the launch of three new products, *MaxSave Enhanced*, *MaxGrowth* and *MaxSave Plus*. Our unit trust sales in Singapore rose by 68% due to improved equity market sentiments and the successful launch of several innovative funds, including a global property investment

fund and a global resource fund. Structured deposits remained popular with our customers, and among the innovative products launched was our *A1 Structured Deposit*, the only one-year structured deposit in the industry. Our *10/10 Time Deposit* promotion, which offered customers a 10-month fixed deposit with an attractive interest rate for the first 10 days, received overwhelming response.

We launched a high-profile wealth management thematic advertising campaign to convey and reinforce our wealth management message to our customers. We also collaborated with Singapore Management University to develop the first representative and authoritative research on the money management behaviour of working Singaporeans, involving 1,000 respondents in a nationwide survey.

In Malaysia, our efforts to duplicate our wealth management successes in Singapore achieved good results. Sales of structured investment products, which we first introduced in Malaysia in 2004, jumped ten-fold to more than RM1 billion in 2005, putting

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OCBC in the forefront. We also achieved strong unit trust sales during the year, and OCBC continues to be recognised as one of the leading providers of bancassurance products in Malaysia.

Our card business sustained its strong momentum, growing at well above the industry's rate in terms of cards issued, both in Singapore and Malaysia. We launched the IKEA and Best Denki co-brand cards in Singapore, leveraging on their market leadership in the home furnishing and consumer electronics segments to offer our homeowner customers value and savings in the form of exclusive loyalty programmes, rewards and special promotions. In Malaysia our credit card base soared 64%, a third of which was derived from our partnership with Great Eastern Holdings. The credit card referral programme through Great Eastern's 20,000 agents in Malaysia was successfully rolled out nationwide, extending our customer reach to areas where OCBC does not have a branch presence.

Our partnership with NTUC, which commenced in 2004, achieved a major milestone during the year, with the number of NTUC-OCBC cards issued exceeding 100,000. We also enlarged our product offerings for union members by offering the *NTUC-OCBC Starter Accounts* and *NTUC-OCBC Super Saver accounts*, and held a series of *NTUC-OCBC MoneyWise* seminars throughout the year.

The consumer lending business in Singapore remained intensely price competitive, exacerbated by the rising cost of funds which, in turn, affected our margins on various lending products, particularly home loans and car financing. Our housing and car loan rates were raised during the year, against the backdrop of almost 200 basis points increase in interbank rates. Demand in the HDB home loan market softened in 2005 following two years of strong growth, but the private home loan market picked up in the second half of the year following the government's announcement of various policy changes, including an increase in the loan-to-value limit from 80% to 90%.

Our personal revolving line of credit, previously known as *Prestige Credit*, was re-branded and re-launched as *EasiCredit*, incorporating new features and enhancements. The re-launch was well received with a significant increase in applications and growth in outstanding balances.

In Malaysia, our consumer lending business enjoyed robust growth. Our Malaysia housing loans increased by 12% to RM6.1 billion, while outstanding balances for *Cash Financing-i*, our Islamic Banking unsecured personal financing product, surged by 153%. With the growth in the card base and usage, our Malaysia credit card receivables increased by 42%.

During the year, we added two new bank branches and two Premier Banking Centres in Singapore. We are the first bank to open a branch in the Punggol new housing estate, while the other new branch was opened at the Singapore Management University ("SMU") city campus. The SMU branch marks our second branch in an educational institution (the first being Nanyang Technological University) and reflects our commitment to engage the student and youth market. To better serve our Premier Banking customers, we have increased the number of OCBC Premier Banking Centres to five, following the re-opening of the Mount Elizabeth centre and the addition of a new centre at the East Coast.

As part of our efforts to offer innovative services and banking convenience to our customers, we launched a secured mobile banking service in Singapore based on the *i-mode* platform, becoming the first bank in Southeast Asia to do so. *i-mode* is a revolutionary mobile-internet platform developed by Japan's NTT DoCoMo. Using *OCBC Mobile Banking i-mode*, our customers are able to access selected internet banking services through their mobile phones, including viewing of account balances and recent transaction details, as well as making fund transfers and bill payments.

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### BUSINESS BANKING

We grew our customer base in the SME and large corporate segments, both in our key markets of Singapore and Malaysia, as well as overseas in tandem with the regional expansion of our customers. Globally, our Business Banking division achieved a 10% increase in net profit to S\$540 million in 2005.

Our SME lending programmes which were launched in 2004 gained further momentum in 2005, in particular, our *Business Cash Financing* programme in Singapore. This programme provides revolving working capital loans based on accounts receivables, offering a fast, convenient and cost-effective source of funding to meet our customers' cash flow needs. More than 20% of our new SME customers are using *Business Cash Financing*, and the programme was awarded first runner up for Product Innovation in the 2005 Asian Banking Awards.

In Singapore, we collaborated with the Entrepreneurs' Resource Centre ("ERC") to tap on their resources for evaluating the viability of start-ups and their business models, so that we are better able to offer assistance to this group of businesses which often find it hard to obtain bank financing. Our efforts have resulted in ERC members enjoying a shorter and more efficient approval process for their credit applications.

In Malaysia, we continued to make significant inroads in the SME segment, achieving revenue growth of 18% in 2005. The results of our SME customer survey in 2005 also revealed that OCBC's market penetration among Malaysian SMEs had doubled over the past three years, and customer perception of our products and service levels had improved significantly. During the year, we introduced several new SME lending programmes and secured lending products in Malaysia, including the *SME Plus II* and *Procurement Contract Financing Programme ("PCFP")*. The *SME Plus II* programme provides financing for the purchase or construction of industrial properties for the customers' own use, while the *PCFP* finances registered corporations and companies that have obtained procurement contracts from large Malaysian corporations and conglomerates. Other products introduced for our Malaysia SME customers included

bancassurance for businesses, 24-hour letter of guarantee programme and structured investments.

Total non-interest income from our Business Banking customers grew 10% during the year, through our sustained focus on cross-selling Transaction Banking, Investment Banking and Treasury products and services. The number of customers using *Velocity@ocbc*, our online cash management and trade platform, increased by more than 20% in both Singapore and Malaysia. More than 40 deals were completed jointly with Group Investment Banking during the year, covering loan syndications, mezzanine financing, debt advisory and IPOs in Singapore and Malaysia. Our customer-related treasury business registered healthy growth, boosted by our customers' increased needs for hedging currency exposure as they expand overseas, as well as the increased demand for hedging interest rate exposure during the year as interest rates rose.

### TREASURY

The re-alignment of our treasury customer advisory and product development teams in 2004 to strengthen our product capabilities and customer service has resulted in stronger customer-related treasury sales in 2005. Our customer-related treasury revenue grew by 21% on top of 2004's growth of 161%, while our structured products sales volume increased by 35% following a doubling in the previous year. Nevertheless, the flattening of the interest rate yield curve had a dampening effect on our interest gapping income, resulting in Group Treasury's net profit declining by 35% to S\$136 million in 2005.

The implementation of our new derivatives system – a front-to-back derivatives pricing, risk management and processing system – has enabled the warehousing of innovative structured products and quick sharing of structuring knowledge and information between our treasury centres in different geographies. Consequently, we were able to roll out products at a quicker pace and adapt our sales process rapidly in accordance with our customers' demands. For example, our Malaysia treasury centre was able to seize the first-mover advantage by launching structured products almost immediately after Bank Negara

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Malaysia announced the liberalisation of the foreign exchange regulations, effective April 2005.

We remained a key market player in various Singapore dollar treasury instruments. OCBC was ranked for the third consecutive year among the top two banks for Singapore Dollar Forward Rate Agreements in the *AsiaRisk* InterDealer Survey.

### INVESTMENT BANKING

Our Capital Markets team maintained their strong record in 2005, winning *IFR Asia's* Loan House of the Year (Singapore) award. OCBC was also ranked number one in Singapore syndication loans by *Thomson Financial*, with a 16% market share from total deals of US\$1.15 billion. These included loans arranged for Singpu Chemicals, Huan Hsin, Tat Hong, Wilmar, TECH Semiconductor and United Engineers. We were also the sole arranger for the US\$169 million cross-border acquisition financing of Chuan Hup's marine logistics business.

We remained active in the domestic bond market for both plain vanilla and structured transactions. In January 2005, OCBC Bank launched its first issue of hybrid Tier 1 non-cumulative non-convertible preference shares, raising S\$400 million from fixed income investors. Capital Markets also managed the notes issues for SNP Corporation, GuocoLand, WBL Corporation, and TT International. Our track record of innovation and structuring capabilities won us recognition from *FinanceAsia* for Best Bond House for Singapore in 2005.

In Malaysia, OCBC was ranked first in terms of number of issues for syndicated loans and fourth in terms of number of ringgit-denominated private debt securities issues. Three landmark capital market transactions were completed during the year. We closed Malaysia's first palm oil Islamic securitisation for the Rimbulan Hijau Group, which involved the securitisation of future receivables generated from its palm oil plantations and oil mill. By having tranching ratings of up to AAA, the structure was a breakthrough as it overcame the issue of typically low credit rating of plantation companies, owing to the cyclical nature of the commodity prices. This opened a brand new asset

class to fixed income investors in Malaysia. We also completed an Islamic securitisation of retail malls in Malaysia for an international property fund, Pramerica Group. This was the first Islamic asset securitisation in Malaysia involving the pooling of different properties and their associated cash flows in a single issuing vehicle. The third landmark transaction was OCBC Malaysia's RM400 million issue of Tier 1 non-cumulative non-convertible preference shares, which was the first rated Ringgit preference share issue in Malaysia.

Our Corporate Finance team was involved in the lead sponsorship of three initial public offerings on the Singapore Exchange, raising a total of S\$35 million in equity funding. We were also involved in various secondary capital exercises and advisory transactions such as foreign currency convertible bonds and bonus and rights issues.

Our Mezzanine Capital Unit worked closely with Group Business Banking to customise financing structures for our clients. Tutt Byrant, an Australian company which we financed, was successfully listed on the Australian Stock Exchange.

### TRANSACTION BANKING

OCBC continued to be recognised as a leading provider of best-in-class cash management products and services in Singapore and Malaysia. Having won the prestigious Best Corporate/Institutional Internet Bank in Singapore award by *Global Finance* magazine for three years running, we went on to win the award for the Best Corporate/Institutional Internet Bank in Malaysia in 2005. This award once again endorses the success of our flagship online cash management and trade platform, *Velocity@ocbc*, as well as our customer service model in assisting our corporate customers to achieve process efficiencies through technology.

Our on-going efforts in improving the performance and functionalities of *Velocity@ocbc* reaped results as our customer base in Singapore increased by 23% and on-line transaction volumes doubled in 2005. We also experienced healthy adoption rates in Malaysia, with 27% growth in online banking corporate



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customers. We were also one of the pioneer foreign banks that participated in Malaysia's GIRO network, providing our customers an additional payment alternative.

Our trade finance business recorded robust growth in Singapore and Malaysia, with trade outstandings increasing by 32% and 24% respectively in the two markets. Our structured trade finance business saw a 70% increase in the number of active customers. In Malaysia, we successfully launched a new trade finance product, *Invoice Financing*, to better meet the financing requirements of our SME customers.

In recognition of our success in providing efficient and innovative trade finance services, OCBC was named Best Trade Finance Bank in Singapore by *Global Finance* magazine in 2005.

### MALAYSIA

OCBC has been operating in Malaysia for more than seven decades and ranks among the top three foreign banks in the country by total loans. We have 25 branches located across Peninsula and East Malaysia, and a customer base of more than 400,000 individuals and businesses.

OCBC Malaysia achieved another year of strong growth, recording a net profit of RM415 million (S\$182 million) in 2005, an increase of 53% over the previous year. Earnings growth came from higher interest income and non-interest income, as well as lower allowances. Total assets grew by 12% to RM30.8 billion, while customer loans increased by a broad-based 10% to RM21.8 billion.

During the second quarter of the year, we relocated our Malaysia headquarters and main branch to the newly-constructed Menara OCBC building in Jalan Tun Perak, Kuala Lumpur. The grand opening ceremony on 3 June 2005 was officiated by the Malaysian Prime Minister and attended by 500 guests. With a total of 22,599 square metres of built-up area, Menara OCBC houses about 1,700 staff from our key business divisions and the main branch.

Following the success of our 2004 pilot programme using GEH's Malaysia agency force to cross-sell OCBC's credit cards to their policyholders in East Malaysia, we launched the cross-sell initiative nationwide in Malaysia in July 2005. The partnership with GEH agents achieved stellar results, with more than 50,000 co-branded OCBC Bank-Great Eastern credit cards issued by the end of 2005, an increase of 80% over 2004. The partnership with GEH contributed one third of the 64% jump in our Malaysia credit card base during the year. To ensure timely and seamless support to the agents, a toll-free service support line for GEH agents was set up at our new call centre in Cyberjaya.

Our Islamic Banking business in Malaysia continued to grow strongly, with RM2.3 billion in assets, RM2 billion in customer deposits and RM1.4 billion in outstanding financing as at the end of 2005. Our Islamic Banking customer base breached the 100,000 mark during the year. We also launched the inaugural *OCBC Bank Zakat Collection Week* in partnership with Malaysia's national agency for Muslim tithe collection, and participated in several exhibitions and forums to promote Islamic Banking.

### INTERNATIONAL

Outside of Singapore and Malaysia, OCBC has an international network of 25 branches and representative offices in 13 countries across ASEAN, Greater China and selected OECD countries. Indonesia and China have been identified as our third and fourth major markets, respectively.

In Indonesia, Bank NISP became our subsidiary as we raised our stake from 22.5% to 72.3% over the course of the year, following the acquisition of an additional 28.5% stake, a public tender offer for the remaining shares, and a rights issue by Bank NISP. We also achieved several milestones in our collaboration with Bank NISP. In the consumer segment, a joint ATM cash withdrawal service was launched in April, enabling customers of each bank to withdraw cash from their accounts and check on their balances at the other bank's ATMs when they travel between Singapore and Indonesia. In the SME segment, we have leveraged our *Velocity* platform to help implement Bank NISP's corporate internet banking solution. *Velocity@nisp* was launched in June

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and has been well received by Bank NISP's customers. In August, Bank NISP commenced distribution of Great Eastern's "key man" insurance policies to SME customers through its branch network, setting the foundation for broader cooperation in bancassurance.

A joint OCBC-NISP Steering Committee has been established to formalise and drive the comprehensive capability transfer programme. The focus is on sharing our experiences in risk management, consumer distribution capability, product capability (including credit cards, wealth management, cash management, trade and treasury) and process re-engineering, to support Bank NISP's strategic objectives and growth plans for its consumer and SME businesses.

In China, we achieved a major milestone following months of intensive discussions with potential strategic partners. In early January 2006, we reached an agreement to acquire a 12.2% stake in Ningbo Commercial Bank ("NCB") for RMB 570 million or approximately S\$120 million. Subject to the necessary regulatory approvals being obtained, we expect this transaction to be completed in mid-2006.

NCB has a network of 65 branches and sub-branches in the eastern coastal city of Ningbo, which has a population of approximately 5.5 million and is well known for its strong culture of entrepreneurship. With total assets of RMB 34.2 billion (\$7.2 billion) as at end-2004, NCB is the 8<sup>th</sup> largest of 113 city commercial banks in China, and is also rated highly for its asset quality and capital strength. NCB provides a strong strategic and cultural fit for OCBC given its successful SME franchise, its interest in growing its consumer banking business, a management team that is dynamic and forward-looking, and its significant level of employee share-ownership. As with Bank NISP, we intend to work closely with NCB to support the growth of their SME and consumer businesses. As part of the acquisition agreement, OCBC will be providing technical assistance to NCB through a structured training and development programme that will initially focus on consumer banking, treasury, risk management, IT and internal audit.

Through our network of five branches and two representative offices in China, we are also building our SME and consumer businesses in selected regions, targeting regional trade and wealth management services to the mass affluent segment. During the year, we increased our brand awareness with differentiated services to customers, multiple tie-ups and marketing events, and the successful launch of two structured deposit products.

We opened an offshore branch in Brunei in July 2005, after becoming the first foreign bank to be granted an International Islamic Banking Licence in the country. The Brunei branch provides wholesale Islamic Banking products and services to international companies.

### OPERATIONS AND TECHNOLOGY

Group Operations & Technology ("O&T") continued to make significant progress in its drive towards enhancing OCBC's service quality, improving productivity and lowering processing costs. Our achievements in using technology to improve efficiency won us the MIS IT Excellence Awards 2005 for Best Bottom Line IT, in recognition of our usage of consolidation or shared services to help the organisation reduce operating costs.

During the year, we completed the cross-border hubbing of account services, trade finance and credit card processing in our operations centres in Malaysia. This is part of our initiative to establish cross-border processing hubs in Singapore and Malaysia for selected transaction processing operations, which will boost our processing capacity, further lower our unit costs and at the same time, provide for business continuity back-ups between our two key markets. The hubbing of the call centre for consumer customers in Cyberjaya, Malaysia is on-going and expected to be completed by the first half of 2006. To facilitate cross-border hubbing, our cross-border network infrastructure was also upgraded and an enterprise-wide workflow and imaging system was implemented.

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A new section was set up within O&T to spearhead quality projects and drive service excellence across various O&T functions. Key quality initiatives and process improvement projects which were implemented during the year included:

- Centralising operation reconciliation functions Bank-wide to minimise manual intervention and support straight-through processing
- Reduction of processing defects and cycle time for unsecured credit applications in Singapore and Malaysia
- Introduction of Performance Dashboards to both Operations and Technology departments to track achievement of service level targets as we pursue Six Sigma quality excellence
- Redesigning our credit card application and issuance processes across Singapore and Malaysia, resulting in a 70% improvement in the average card issuance processing time and 60% reduction in customers' enquiries on the status of their card applications
- Redesigning the mortgage loan post-approval process in Malaysia, achieving dramatic improvement in turnaround time
- Improving the fulfilment process for corporate credit facility so that our customers are able to gain faster access to approved loans
- Redesigning our staff recruitment and induction processes, achieving timely staff recruitment and expediting our new colleagues' ability to contribute effectively on their new jobs

Our capability-building investments in various IT projects in 2005 included the following:

- Development of an enterprise data warehouse on a single platform to support Basel II requirements and management information system enhancements
- Replacement of the core banking systems for all overseas branches with the application hub residing in Singapore
- Establishment of a new, state-of-the-art data centre in Cyberjaya that supports our Malaysian operations
- Establishment of a cross-border ATM link-up with Bank NISP in Indonesia
- Introduction of the *i-mode* mobile banking channel to augment our existing delivery channels for consumer banking products and services

### QUALITY & PROCESS INNOVATION

We continued our thrust in driving quality and process innovation through redesigning our core business processes to improve efficiency and customer service. Some of our key process improvement initiatives during the year were:

Our redesigned process for mortgage loan application in Malaysia won in the Operational Efficiency category of the Asian Banking Awards 2005. This entry also came in second place in the Customer Service category of the Asian Banking Awards 2005.

Pursuit of quality excellence is becoming a way of life in OCBC, with senior and middle management across the bank playing a leading role in Quality Councils and sponsoring quality and process improvement initiatives.

### PROPERTY MANAGEMENT

OCBC Group's properties, amounting to more than two million square feet of net lettable area, are actively managed by our subsidiary OCBC Property Services to optimise rental incomes, yields and capital values. In 2005, our retail properties continued to maintain full occupancy, while our office and residential properties also achieved high occupancy rates.

In line with our objective to swap non-core assets for core financial services growth opportunities, we continue to explore divestment opportunities to dispose our non-core property assets at the opportune time to realise maximum value for our shareholders.

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### HUMAN RESOURCES

At OCBC we recognise that people are our most important resource. We invest in their career growth through extensive learning and career development programmes, providing an environment that embraces continuous learning. In 2005, our average training man-days per employee was 6.8, well above our target of 5 training man-days. Our *Career Best* training programme, which guides our employees in finding the best fit between their talents and OCBC's organisational needs, has trained more than 1,800 of our employees since its introduction in 2003.

We continued to give our employees more international experiences in their job assignments to support our overseas expansion plans. Though our e-learning platform, we are also able to deliver high-quality training programmes to our employees worldwide.

The *OCBC Flex Plan*, a flexible benefits programme which gives our employees more choices in managing their benefits, was introduced in Malaysia during the year, following its success in Singapore.

Our fourth annual *OCBC Employee Survey* was held in November 2005 and enjoyed a group-wide participation rate of over 98%. The implementation of various action plans over the past years underscores management's commitment to listen, understand and address the work place issues that are important to our employees. Our 2005 employee engagement score improved by 11% compared to the 2004 survey, and is 52% higher compared to 2002.

### CORPORATE SOCIAL RESPONSIBILITY

As a banker to the community, OCBC helps individuals and businesses achieve their aspirations by providing them with innovative financial services. In the same helping spirit, our Corporate Social Responsibility Programme is designed to support the communities we operate in, and centred on helping children and young people realise their full potential.

We contributed S\$500,000 in 2005 to our adopted charity, the Singapore Children's Society ("SCS"), as part of the commitment we made in 2004 to donate S\$2.5 million over five years to support its cause. Besides monetary contributions, OCBC employees actively participate in the OCBC Volunteer Programme by volunteering their own time and skills to improve and nurture the lives of the children under SCS's care. During the year, our employees participated in 35 activities, from running personal development workshops for the children to organising social outings, sports and games. One of the highlights was the sponsorship of 150 children and their families to the gala charity premiere of Star Wars Episode III.

OCBC is one of the pioneer members of the Singapore Compact for Corporate Social Responsibility, which was launched in January 2005 to promote greater social consciousness among companies. We also joined the UN Global Compact Singapore Network, part of a worldwide network that aims to promote business values in four areas: human rights, labour standards, environment protection and anti-corruption.

OCBC continues to encourage and support academic excellence by awarding book prizes and scholarships to outstanding youths in tertiary educational institutions. Twelve scholarships were awarded in 2005. We contributed S\$200,000 to the Lee Kuan Yew School of Public Policy, as part of the commitment we made in 2003 to donate S\$1 million to the school over five years.