

Operations Review

In 2004 we made significant progress towards achieving the goals set in our New Horizons strategy. Against the backdrop of an economic rebound in Singapore and the region, we further strengthened our market position in our main markets of Singapore and Malaysia, and our principal customer and product segments achieved healthy growth.

Major strategic milestones achieved during the year included forging a closer alliance with Great Eastern Holdings (“GEH”) to enhance our wealth management platform, partnering with Bank NISP to expand our Indonesian presence, and securing a collaborative agreement with NTUC Link to provide credit and debit cards to union workers. Our achievements were also recognised by two prestigious financial services publications during the year. We were the first Singapore local bank to win *Lafferty Group’s* Asia Pacific Retail Bank of the Year 2004 as well as South-East Asia Retail Bank of the Year 2004. We were also named Best Bank in Singapore 2004 by *Global Finance*.

Consumer Financial Services

Our initiatives towards improving overall customer experience gathered momentum in 2004. Despite intense price competition in the consumer business in Singapore and Malaysia, we continued to strengthen our position in Singapore and expand our presence in Malaysia by providing an increasingly varied set of solutions to meet the financial needs of our one and a half million customers.

In the area of wealth management sales, we retained our leadership position with record sales of S\$8.5 billion in Singapore and Malaysia, up 64% from S\$5.2 billion in 2003. We continue to be the leading distributor of bancassurance products in Singapore, having maintained our market share at more than 40% for several years. We launched *Maxlink*, an innovative regular premium investment-linked insurance plan that targets varied investor profiles. In Malaysia, we were number one in single premium bancassurance product sales and ranked second in regular premium sales, helped by the launch of new products such as *Annual Cashback Plan*, *MaxSave Enhanced* and *Capital Plus 2*.

Demand for unit trusts in Singapore was less buoyant in 2004 but we continued to introduce innovative products to our customers. *The Accumulator* is a unique open-ended global balanced fund that combines the flexibility, liquidity and growth potential of equity funds with a capital preservation feature that increases as equity markets rise. This product was recognised in the Financial Innovation

Around the World: 2004 Review of New Retail Products and Services by the Council on Financial Competition. In Malaysia, the launch of two tranches of capital guaranteed funds and the *Pacific Dividend Fund* contributed to a 114% increase in our equity unit trust sales.

Treasury and structured products continued to be well received by customers, and total sales more than doubled compared to 2003. Domestic demand for interest rate-linked structured deposits was strong and we launched numerous products in regular, on-going tranches during the year. In Malaysia, we were also the first foreign bank to offer interest rate-linked structured deposits.

The lending market in Singapore continued to be intensely price competitive but we successfully defended our dominant positions in various segments. We retained our position as the market leader in the HDB housing loan market for a second consecutive year, with an estimated 45% market share based on caveats lodged, as we continued to leverage on our strong relationships with housing agents and industry-leading processing capability. We also retained our number one position in terms of total caveats for private and HDB housing loans. In vehicle financing, our strong relationships with key car distributors and superior customer service helped grow our vehicle financing portfolio by 14%.

Our home loan sales in Malaysia continued to grow at a rapid pace. Also, our efforts to gain market share in shophouse

financing, using a targeted approach and introducing new features to our shophouse financing package, resulted in a RM1 billion growth in our secured loan portfolio.

We applied considerable resources towards strengthening our card business in 2004, resulting in a 30% expansion of our card base in Singapore and Malaysia. We launched three new cards in Singapore during the year, targeted at different customer segments. The co-branded *NTUC-OCBC VISA Credit and Debit Cards* was the first initiative under a collaborative and exclusive agreement with NTUC Link to provide financial products and services to over 440,000 union members and the wider working community. These cards offer NTUC members greater payment convenience at a larger number of merchant outlets, access to OCBC's card privileges programme, and opportunities to accumulate additional LinkPoints and redeem rewards at a faster rate. More than 40,000 card applications were received in the four months after the launch. *Titanium*, with its breakthrough card design that incorporates unique curved edges, is targeted at financially confident and trendy individuals, while the *OCBC Platinum MasterCard* was made available by invitation to a select group of customers, with benefits tailored to their astute preferences.

In Malaysia, our credit card portfolio surged by 90% in 2004 to well above 100,000 cards, due in part to more intensive marketing and promotions, as well as our closer partnership with GEH. The OCBC-GEH tie-up for credit cards accounted for one fifth of the new cards we acquired in Malaysia.

Capitalising on the growth opportunities in Islamic Banking, we expanded our Islamic Banking offerings in Singapore and Malaysia. OCBC is currently the only bank in Singapore that offers Islamic depository products in the form of *Al-Wadiah Savings* and *Al-Wadiah Current Accounts* for individual and corporate customers. In 2004, we launched the *zakat* auto-deduction and computation service for all *Al-Wadiah* accounts to meet the needs of our Muslim customers. In Malaysia, we currently have an array of financing and depository Islamic products to cater to the differing needs of both consumer and corporate customers. In 2004, we launched *Cash Financing-I* in Malaysia, an innovative unsecured personal financing product based on the Islamic principle of sell and buy back (*Bai Inah*), which was well received by customers.

While we strive to provide best-in-class products and service excellence, effective channel management remains a key component of OCBC's consumer banking strategy. We were the first bank in Asia to deliver customised marketing messages on ATMs, and were awarded The Best Practice ATM Deployment Award in the ATMIA Industry Awards 2004. This ATM enhancement reduces transaction times through pre-set or customised transaction choices, and also enables OCBC customers to receive information about our product offerings which is tailored to suit each individual. During the year, our Internet Banking platform was also given a new look with more user-friendly features to enhance the online banking experience for our customers.

Business Banking

We continued to grow our Business Banking customer base in 2004, not only in our key markets of Singapore and Malaysia, but also overseas, in tandem with the regional expansion of our customers. The growth was across all segments, from small and medium enterprises ("SMEs") to large corporates. We also focused on deepening customer relationships by supporting their transactional, investment banking, risk management and investment needs such that we achieved strong fee income growth.

Since 2003, we have worked hard to re-engineer our SME business model and are now positioned to better serve the needs of the SME market. After conducting extensive SME market research, primarily around industry segments, we introduced nine new SME lending programmes and secured lending products. The programmes which enjoyed particularly strong market acceptance include our electronic-accounts-receivable financing, block-discounting for motor vehicles and commercial property financing programmes in Singapore, and equipment financing, distributor financing and business premises financing programmes in Malaysia. Our deployment of telesales teams in Singapore and mobile sales teams in Malaysia also boosted our customer base and contributed to revenue growth.

We achieved 25% growth in fee income from Business Banking customers during the year, primarily from Treasury, Transaction Banking and Investment Banking products and services. More than 30 deals were completed during the year jointly with Group Investment Banking, covering IPOs, syndicated loans, debt advisory and mezzanine financing both in Singapore and Malaysia. We launched the first

Chinese language transaction banking service as a major enhancement to *Velocity@ocbc*, and saw a 19% increase in active *Velocity@ocbc* users with a doubling of transaction throughput via this award winning web-based system. We were equally successful in supporting our customers' hedging needs through various Treasury products, which included interest rate and currency derivatives, structured deposits and foreign exchange.

We launched our Business Banking Commercial Service Centre in Malaysia in September 2004. This centre is modelled after our successful Singapore service centre which was launched four years ago. Through these customer service centres, we provide one-stop service for customer enquiries and transaction execution. The superior turnaround times and service levels provided by these service centres clearly differentiate us from most of our competitors.

Treasury

Group Treasury engages in foreign exchange activities, money market operations, fixed income and derivatives trading, and also works closely with Business Banking and Consumer Financial Services to structure products and financial solutions to meet customers' investment and hedging needs.

Our customer-related treasury business continued to grow in 2004 due to healthy demand for structured and investment products. Structured deposits sales volume doubled compared to 2003. An Islamic Banking Unit was established within Group Treasury to provide Syariah-approved Islamic investment products for our Muslim customers. During the year we launched the *OCBC Islamic Treasury Facility* (Singapore dollar-based) and *OCBC Ijarah Participating Facility* (foreign currency-based), becoming the first bank in Singapore to launch such products.

Our treasury product development and client advisory teams were re-aligned during the year to further strengthen teamwork and capabilities, enhance customer service and provide a comprehensive suite of investment and hedging products across multi-asset classes. We continued to build our capabilities, especially in the Asian market, by enhancing our talent pool, increasing our treasury headcount by 13%.

Our strength in Singapore Dollar treasury products earned us top five rankings in various categories in the AsiaRisk end-user survey and AsiaRisk interbank derivatives poll for 2004. In a poll conducted by the Monetary Authority of Singapore for the period of July 2003 to June 2004, OCBC also maintained its ranking among the top three primary dealers for outstanding performance in the Singapore Government Securities repo market.

Investment Banking

Group Investment Banking, which offers a suite of investment products and services to corporates, had an especially fruitful year in 2004.

Our Capital Markets team continued their strong record in the loan syndications market. OCBC was ranked the number one bookrunner for Singapore syndicated loans in 2004 by Thomson Financial Services, having arranged a total of 14 deals valued at US\$863 million. These included loans arranged for STT Communications, TECH Semiconductor, Millenia Tower, ECS Holdings, San Teh Cement, Singpu Chemicals, DL Properties and Kian Ho Bearings. We were also the sole arranger for a HK\$200 million financing to a Hong Kong-listed apparel manufacturer, U-Right International Holdings.

Equally active in the domestic bond market for both plain vanilla and structured transactions, we were ranked the number two bookrunner for Singapore dollar denominated bonds for domestic corporates, successfully executing three rated commercial mortgage-backed securities transactions totalling S\$1.1 billion. These transactions were for: CapitaRetail, the purchaser and owner of Bukit Panjang Plaza, Lot One Shoppers' Mall and Rivervale Mall; Winmall, the funding vehicle for the securitisation of Jurong Point; and Emerald Assets, the funding vehicle for Ascendas-REIT.

We were also active in the Malaysian capital markets, where we completed 14 transactions for US Dollar and Ringgit syndicated loans and Ringgit private debt securities. These include syndicated loans for Malayan Banking and AmInternational; a term loan and syndicated Islamic facility for the plantation company, Kulim; and a Serial Bond issue for Mid Valley Capital which was an innovative structured commercial asset-backed transaction for Megamall.

Our Corporate Finance team sponsored the initial public offerings (IPOs) of seven SMEs on the Singapore Exchange, raising a total of S\$182 million in equity funds. This placed OCBC among the top five positions in the Singapore IPO league table. The seven companies were: electronics components distributor, Excelpoint Technology; aluminium extrusion specialist, AEI Corporation; specialty chemicals manufacturer, Matex International; oil and gas consumables distributor, Aqua-Terra Supply; health and lifestyle company, Best World International; Malaysia-based mobile entertainment products manufacturer, Action Asia; and China-based keypad manufacturer, Memtech International.

Our Mezzanine Capital Unit, set up in 2003 to provide structured short- to medium-term financing to companies in Singapore and Malaysia, invested in a number of companies, including Memtech International, which we later brought to the IPO market.

Transaction Banking

Our Transaction Banking group offers cash management, trade finance, trustee and custody/nominees services to SMEs, large corporations, financial institutions and government entities in Singapore and Malaysia.

Our online cash management and trade platform, *Velocity@ocbc*, received yet another industry award in 2004. It clinched the Intelligent Enterprise Asia Award 2004, which recognises companies in the Asia-Pacific region that have successfully deployed technology in a strategic manner to add value to their business. We continued to innovate and upgrade the features of *Velocity@ocbc* in order to provide improved functionality to our customers. The user interface was simplified and greatly enhanced, bringing about faster display speed and greater ease of navigation. Regular educational seminars, post-implementation hands-on training and after-sales technical support were offered through our customer service call centre and technical support service team. We also launched the Chinese version of *Velocity@ocbc*, the first Chinese online corporate banking system in Singapore, to better cater to the Mandarin-speaking community and assist them in embracing technology to gain efficiency in their business processes. These efforts resulted in strong customer endorsements, broadening our customer base and significantly increasing our volumes in 2004. Our customer base increased by 19%, with more than 30% of

our corporate customers actively using *Velocity@ocbc* to manage their cash and trade transactions more efficiently. On-line transaction volumes jumped by more than 100%.

We also continued to channel significant resources to revamp and upgrade our trade finance processes and infrastructure. Customer feedback has been very positive and we now clearly have the best-in-class delivery and service standards in the industry. Cut-off times for submission of applications have been extended to 5 pm for all standard core trade finance products and our customers are assured of same day turnaround. In recognition of our product and service standards, OCBC was named Best Trade Finance Bank (Singapore) 2005 by *Global Finance* magazine.

Asset Management

OCBC Asset Management provides discretionary investment management and advisory services as well as an array of unit trust products to both institutional and retail clients, with core competencies in global fixed income and Asia-Pacific equities. Our product range includes pure equity, fixed income, money market and balanced portfolios with different risk-return characteristics, as well as absolute return-oriented offerings to provide for the various risk-return profiles of investors.

As at the end of 2004, total funds under management by OCBC Asset Management were S\$6.8 billion, an increase of 24% from S\$5.5 billion at end-2003. Of the total amount, S\$1.8 billion were unit trust funds. Investor appetite for Asian stocks resulted in strong inflows of funds into our Asian country funds, in particular the *OCBC Malaysia Fund*, *OCBC Thailand Fund*, *OCBC India Fund*, *OCBC Japan Fund* and *OCBC Japan Growth Fund*. During the year, we launched two new unit trust funds – the *Asia Star Opportunity Fund 1*, which adopts an active asset allocation strategy, aimed at giving investors capital appreciation by investing in high potential growth securities in Asia; and the *OCBC SGD Income Plus Fund* which seeks to provide regular quarterly distributions while maintaining medium to long-term capital stability.

Malaysia

OCBC has been operating in Malaysia for more than seven decades and is today one of the top three foreign banks in the country by assets, with a network of 25 branches and customer base of more than 400,000 individuals and businesses.

OCBC Malaysia turned in a commendable set of results in 2004, recording a net profit of RM276 million, an increase of 35% over the previous year. Earnings growth was contributed by higher non-interest income and Islamic Banking income, as well as lower provisions. OCBC Malaysia's total assets grew by 8% to RM27.6 billion while its customer loans increased by 14% to RM20 billion.

With the increased stake in GEH, collaboration was stepped up between OCBC Malaysia and Great Eastern Life Assurance (Malaysia). Leveraging on GEH's sizable sales force of more than 17,000 agents in Malaysia, we now have great potential to expand our distribution capability beyond our 25-branch network. In the second half of 2004, we implemented pilot programmes using GEH's agency force to promote OCBC's credit cards and housing loans to their policyholders in East Malaysia, and achieved encouraging results.

In April 2004, we relocated our Kuala Lumpur Jalan Hang Kasturi branch to Kepong in a strategic move to further expand our business in the Klang Valley. This relocation received positive response from the many new and existing customers located in the area. The new branch achieved a substantial customer base and loans and deposits volumes within a short period of time.

We continued with our efforts to promote Islamic Banking actively, participating in several major exhibitions and forums both in Malaysia and Singapore, including the annual Islamic Banking & Takaful Expo. As in the past nine years, OCBC again contributed *zakat* (alms) in line with the Syariah principle of providing for the poor and needy in society. A full-fledged Syariah Advisory Committee was also set up to better support our Islamic Banking operations.

International

Outside of Singapore and Malaysia, OCBC has an international network of 24 branches and representative offices in 12 countries across Greater China, ASEAN and selected OECD countries.

In 2004 we made significant headway towards our stated goal of establishing a substantial presence in a third major market after Singapore and Malaysia. In April 2004, we purchased a 22.5% stake in Bank NISP, the 12th largest bank by assets in Indonesia, for S\$119 million, making Bank NISP an associated company of OCBC. In December, we entered

into a conditional sale and purchase agreement to acquire an additional 28.5% stake in the bank. Upon completion of this transaction, OCBC will become the majority shareholder of Bank NISP with a 51% stake and will be required to make a tender offer for the remaining shares we do not own.

We believe Indonesia is an attractive growth market for OCBC, and Bank NISP has great potential to become one of the leading banks in the country. Several joint initiatives with Bank NISP are underway for increased cooperation. In the consumer segment, we plan to leverage our strengths in sales distribution, customer relationship management and wealth management, capabilities developed in Singapore and Malaysia, to strengthen Bank NISP's existing business. In the SME arena, we will work with Bank NISP to further augment their product range, for example, in cash management, and to help improve their risk management and credit processes.

In 2004 we continued to explore opportunities in China, in line with our intention to be ready to enter a fourth major market by the end of 2005. While no significant investments have been made, we are gearing ourselves up for the deregulation of the China financial industry in 2007 by enhancing the sales and service infrastructure of our China branches, to better position ourselves to compete when the consumer market opens up to foreign banks.

In addition, efforts are being made to expand our customer base and broaden the products offered across our international network. For example, we are focusing increasing resources towards developing our international trade business to tap into the intra-Asian trade flows. We are also exploring ways to leverage our partnership with GEH to build our wealth management offerings in the region, in light of the opportunities presented by emerging Asian wealth.

Operations and Technology

Group Operations and Technology ("O&T") provides operational support to our businesses and manages our IT systems. O&T's primary goal is to enhance OCBC's service quality and reliability to meet the high standards expected by our customers, and at the same time, ensure that we continue to improve productivity. We strive to achieve these goals through process improvement, and through

simplifying, standardising and integrating existing IT applications.

We successfully completed our Malaysia branch centralisation project in the second half of 2004, moving our back-room operations from the branches to centralised processing centres in Penang, Cyberjaya and Kuala Lumpur. This freed up more than 20% capacity for our Malaysia branches to reinvest in sales and service.

We also made significant progress in establishing cross-border processing hubs in Singapore and Malaysia for selected back-office operations, with a commitment to invest S\$55 million in this project over the next two years. Two wholly-owned service subsidiaries, e2 Power Sdn. Bhd. and e2 Power Pte. Ltd. were set up to facilitate cross-border hubbing and share the processing load between Malaysia and Singapore. e2 Power Sdn. Bhd. was granted Multimedia Super Corridor status which provides significant financial and other incentives. This move will boost our processing capacity and provide for future scalability in our operations, as well as support our business continuity plans. From January 2005, existing OCBC Bank employees in the selected back-office functions in both countries have been seconded to the e2 Power subsidiaries. Full completion of this project is expected by the first half of 2006.

We also stepped up our investments in various other capability-building initiatives in 2004. Major IT projects completed include the following:

- Replacement of our retail internet platforms for myocbc.com and finatiq.com, supporting rapid innovation while saving more than S\$3 million in annual running costs
- Automation of software distribution across our network, resulting in S\$3 million annual software installation cost savings
- Investment in customer analytics and new campaign management tools together with Asia's first one-to-one ATM solution to support personalised marketing
- Implementation of Siebel CRM (customer relationship management) sales and service capabilities across Malaysia
- Chinese language capability for *Velocity@ocbc*
- Implementation of a new foreign exchange margin

trading system and a new derivatives platform to support treasury product innovation

- Cross-border delivery included ATM linkages between Singapore and Malaysia; hubbing of SWIFT processing for 6 international countries into Singapore; and "one-bank" corporate internet banking for Singapore and Malaysia based on our *Velocity@ocbc* platform.

Quality & Process Innovation

One of our New Horizons goals is to improve quality and drive better business results through process innovation. We continued to step-up our quality training programmes and workshops to better equip employees with the requisite skills for process improvement initiatives. Since the Group Quality & Process Innovation division was set up in 2003, several cross-functional process improvement initiatives were launched, including:

- Improving the cut-off times for same day turnaround for all trade services
- Reducing processing defects and cycle time for mortgage loan applications in Singapore and Malaysia
- Shortening the approval time for launching new products
- Improving the speed and convenience to our customers using our Call Centre service, and offering more services via phone banking
- Redesigning our SME customer engagement process to improve efficiency and effectiveness for SME credit approvals.

Our redesigned letter of credit issuance process was named the winning entry in the Operational Efficiency category of the Asian Banking Awards 2004. We differentiated ourselves from the competition by being able to achieve same-day turnaround for letter of credit applications while offering the industry's latest cut-off time for submission of applications of 6pm.

Property Management

OCBC Group's properties, amounting to more than two million square feet of net lettable area, are proactively managed by our subsidiary OCBC Property Services to optimise rental incomes, yields and capital values. In 2004, our retail properties continued to achieve full occupancy, while our office and residential properties generally performed well despite the over-supply situation in the market. We completed building construction of Menara

OCBC, our 20-storey head office building in Malaysia, in November 2004.

In line with our objective to divest our non-core assets and reinvest the gains in core financial services growth opportunities, we sold the Whitesands Shopping Mall through a public tender for S\$161 million in September 2004, reaping a net gain of S\$43 million for our 55% stake. This partly covered our S\$119 million investment in Bank NISP.

Human Resources

As at the end of 2004, our Group staff strength was 10,582, including 2,315 staff from Great Eastern Holdings. Overall recruitment in 2004 was geared towards revenue-generating positions and functions that require critical specialist skills.

Talent attraction and retention remain our key areas of focus. We launched three programmes to recruit talent at various levels. The Trainee Bank Officer Programme aims to attract fresh graduates from local and foreign universities while the Management Associate Programme targets mid-career MBA graduates from prestigious universities. Our Career Transition Programme is targeted at mid-career talent pool from non-banking sectors.

We continued to invest in employee development through extensive training and career development programmes. Training expenditure as a percentage of payroll was 2% in 2004, while average training days per employee rose 19% from 5.3 to 6.9 days. We also increased the number of cross-border assignments, providing employees with greater exposure and learning opportunities.

Our compensation programmes remain market-driven and are designed towards rewarding our high performers through increasingly differentiated incentive compensation programmes.

In line with our objective of increasing share ownership among employees, we introduced the *OCBC Employee Share Purchase Plan*, a unique savings-based plan that offers all employees a convenient way to save for the purchase of OCBC shares. One out of three employees signed up for this Plan which we believe better aligns our employees' interests with those of our shareholders, and will also enable us to attract and retain talent. At the end of 2004, 12% of our employees own OCBC shares, up from 10% in 2003 and 6% in 2002.

In response to feedback from our 2003 Group-wide staff survey, we implemented several initiatives at both the corporate and divisional levels to improve workplace satisfaction. The *OCBC Flex Plan*, one key initiative, is a flexible benefits programme which gives employees more choices to manage their benefits. To help employees succeed in both their professional and personal lives, we also implemented several work-life balance programs, including paternity leave, flexible work arrangements and family bonding night.

Corporate Social Responsibility

As banker to the community, our intention to help individuals and businesses achieve their aspirations is enhanced by our social responsibility programme, centred on helping children realise their full potential.

To provide support to the cause of nurturing children and youth, we adopted the Singapore Children's Society ("SCS") as the principal partner for our involvement in the community. In 2004, we committed to contribute S\$2.5 million over 5 years to support the SCS. Established in 1952, SCS' mission is to champion and promote the welfare of children. Its broad range of programmes, primarily centred on education and nurturing, benefits 12,000 children, youths and families from disadvantaged backgrounds. Besides monetary contributions, OCBC employees also pledged to volunteer their time and skills to enrich the lives of the children under SCS' care, by participating in and complementing various SCS' initiatives, such as social outings and programmes to cultivate interest in reading and mathematics.

OCBC continues to encourage and support academic excellence by awarding book prizes and scholarships to outstanding students in tertiary educational institutions, with 12 scholarships awarded in 2004. We also contributed S\$200,000 as part of the commitment we made in 2003 to donate S\$1 million annually over five years to the Lee Kuan Yew School of Public Policy.

As a result of our partnership with NTUC Link to offer dedicated NTUC-OCBC cards to union members in September 2004, we donated S\$250,000 each to SCS and the Children's Cancer Foundation. For the next four years, we will continue to donate 1% of the total spending on these cards, subject to a maximum of S\$250,000, to

charities designated by NTUC. This 5-year commitment complements our existing Care Card programme, which continues to donate a percentage of card spending to eight selected charities.

OCBC has also been an active supporter of the local arts scene for the last 10 years, and was named Distinguished Patron of the Arts by the National Arts Council for the sixth consecutive year in 2004.

In response to the region-wide calamity brought about by the December 26, 2004 Asian tsunami disaster, we sought to help in any way we could to bring relief to the victims and their families. Besides donating S\$487,000 to the Singapore Red Cross Society (SRCS), the STAR Earthquake/Tsunami Relief Fund in Malaysia, and Metro TV's "Indonesia Menangis" relief fund, we also initiated activities to garner support for the international call for aid and relief. We opened up our banking channels and facilities to facilitate donations to the SRCS, and our customers responded generously by donating over S\$870,000. In addition to cash donations and other contributions, our staff also volunteered their services to help the SRCS assemble more than 50,000 food packets for families in crisis-hit areas.