

## Operations Review

In an environment marked by intense competition and sound economic growth, we achieved improved results across all our major business segments and geographic markets in 2006. The disciplined execution of our New Horizons II strategy and our investments in building stronger capabilities, continue to drive the broad-based growth in our businesses. In particular, we made good progress in deepening our market penetration in Malaysia, Indonesia and China, while maintaining our substantial market share in Singapore.

### CONSUMER FINANCIAL SERVICES

Our consumer banking business in Singapore and Malaysia delivered healthy results despite the competitive landscape and the relatively weak industry-wide growth in consumer loans in Singapore. Group Consumer Financial Services' revenue rose 10% to S\$1,010 million, and net profit grew 11% to S\$380 million. Our consumer customer base grew 4%, with particularly strong expansion in Malaysia, while our premier banking customer base surged 33%.

OCBC remained a market leader in total wealth management sales in the combined Singapore and Malaysia market, achieving sales of S\$8 billion, although these were 21% lower than in 2005. The decline was mainly due to reduced demand for structured deposits as a result of the flat yield curve as well as competition from higher deposit rates. Leveraging on our exclusive partnership with Great Eastern Holdings, we continued to be the leading distributor of bancassurance products in Singapore with a 39% market share, up from 37% in the year before. Our unit trust sales rose 7% in Singapore and 30% in Malaysia, on the back of buoyant equity market sentiments and investor confidence.

In the Singapore home loans market, we maintained our number two position in terms of outstanding portfolio balances. We launched two unique home loan packages which were firsts in the banking industry. Our *QuickOwn Home Loan* is a combined home loan cum endowment plan, whereby annual payouts from the endowment plan go towards paying down the mortgage, allowing borrowers to pay off their home loans faster while at the same time enjoying insurance protection. Our *Reverse Mortgage* package provides customers with an added cash flow option without the need to sell an unencumbered property in their twilight years.

Our card business fared well in Singapore and Malaysia, with the total number of cards in force growing by 18% and crossing the one million milestone for the first time. In Singapore, the number of cards increased by 12% while credit card receivables rose 13%. Our *Titanium* card won the MasterCard 2006 Platinum Award for Best Innovative Card Product (Premium Category) in the Asia Pacific, Middle East & African region. Collaborating with the Singapore Management University, we introduced a first-of-its-kind student led programme which allowed SMU students to conceptualise, design and market a specifically tailored co-branded card programme. The October launch was a resounding success with 40% of the SMU student population signing up for the *SMU-OCBC Debit Card* within two months of the soft launch.

Our Malaysia card business continued to out-perform the industry growth rate, achieving 36% growth in the number of cards in force. Half of the increase came from cross-referrals by Great Eastern insurance agents to their policyholders, up from the one third contribution in 2005. We also successfully re-launched our *Titanium* card in Malaysia, achieving growth of over 440% for the premium card market segment.

We achieved another first with our personal revolving line of credit *EasiCredit*, offering the highest credit limit in the market and a yearly cash rebate on the interest charges. We also launched *Express Cash* which allows consumers to draw cash from an unsecured loan within an hour of applying at any OCBC branch island-wide in Singapore.

Our partnership with NTUC, which started in 2004, saw good progress during the year with the launch of two insurance products specifically for union members. The Parenthood Plan helps young couples prepare for pregnancy and childbirth costs, with options for maternity, hospitalisation and surgical benefits. The Children Plan is the only insurance plan available in the market for those who want to cover their children for unexpected hospitalisation expenses as well as pre-tertiary education expenses. Several NTUC-OCBC MoneyWise seminars were also held throughout the year, providing Singaporeans with practical advice on how to save and grow their money.

Throughout the year we continued to invest in and improve our customer service delivery and customer touch-points so that we offer a deliberate and differentiated customer experience. To understand and serve our customers better, we have also enhanced our customer analytics and marketing capabilities, reaping significant results. Leveraging technology to enhance our analytics capabilities won us the 2006 Marketing Success Award from *Unica*, a leading global provider of enterprise marketing solutions. We won the award in a competitive international field, receiving peer recognition of how we embraced marketing technology to deliver value to customers and achieve strong business results.

We also embarked on a multi-channel programme to enable our customers to bank with us through different channels according to their needs and preferences. We enhanced our secured mobile banking services which are now available via a wide range of 2.5G and 3G mobile phones across all three Singapore mobile network operators. In November, full-service Sunday banking was introduced at five of our Singapore branches following an extensive customer survey which showed that customers would

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appreciate such services. The responses well exceeded our most optimistic expectations in terms of customer traffic and new accounts opened.

We introduced a cross-border ATM cash withdrawal service with Malaysia, allowing customers from both OCBC Singapore and participating banks in the Malaysian Electronic Payment System (MEPS) to withdraw cash at each other's ATMs. We also became the first bank in Asia to offer an interactive ATM service that recognises and prompts customers to update their contact details, providing greater customer convenience and at the same time enhancing our productivity as the updated information is entered directly into our database.

In December, we introduced a Two-Factor Authentication (2FA) solution as an added security measure for our Internet Banking users. We were the first bank in Singapore to provide a mobile phone token option as well as the first to offer three types of 2FA tokens (mobile phone, hardware and SMS) which caters to varied needs and lifestyles, minimising any potential customer inconvenience.

In Malaysia, gradual liberalisation in the financial sector allowed us to expand our branch network and enhance our ATM reach during the year. Following the authorities' approval for foreign banks to open four new branches each, we added three new branches by year-end, at Batu Maung (Penang), Puchong (Selangor) and Miri (Sarawak), bringing our Malaysia branch network to 28. We also launched a shared ATM service, *HOUSE*, with three other locally incorporated foreign banks, giving our customers access to more than 300 ATMs across the country.

### BUSINESS BANKING

Group Business Banking's total revenue grew 14% to S\$1,135 million, while its net profit grew 12% to S\$628 million. The improved performance was driven by loan growth of 12% and higher contributions from treasury, trade and investment banking activities, encompassing the large corporate and small and medium enterprises ("SME") businesses. Our focus on improving cross-sell, financing our network customers going regional, and the roll-out of our new value propositions for SMEs across Singapore and Malaysia gained good traction.

In Singapore, loan demand from our large corporate and SME customers was boosted by the strong economic environment and buoyant property markets. We achieved loan growth in several sectors including real estate development and investment, transportation and logistics. Lending to large corporates was also driven by the regional expansion of our clients, primarily in China and Indonesia.

In Malaysia, we enjoyed broad-based loan growth among business clients, particularly in the plantations, oil and gas and real estate sectors. Major financing mandates clinched included

the innovative RM200 million securitization of plantation assets for Kwantas Corporation Berhad, the RM400 million, five-year syndicated loan for Unisem Berhad and the RM605 million financing for acquisition of the Pantai Hospital chain by Khazanah Holdings and Parkway Group.

During the year we launched several new products and services in Singapore and Malaysia targeted at the SME segment, which were well received by the market.

In Singapore, we launched the *Business Term Loan*, which provides up to S\$150,000 in working capital financing to SMEs, with no collateral required and an exceptionally fast approval turnaround time of no more than five business days from receipt of the application. Through our tie-up with Shell, we launched the *Quick Cheque Deposit* service at five selected Shell petrol stations in Singapore. This is a first in the industry and provides added convenience to our business customers to deposit their corporate cheques without having to visit our branches. We also launched *eAlerts@ocbc*, which allows customers to access their company account balances through the mobile phone and to receive useful alerts such as incoming funds and funds top-up requests.

In Malaysia, our *Easi-Procheck* product provides SME customers the convenience of printing cheques, replacing manual cheque writing through our secured cheque writing software. This helps the SMEs achieve efficiency in their payment processes without compromising on security. Another new product was *Easi-FPX*, an auto-debit collection service designed to assist companies in the collection of receivables and to improve their cashflow management. We also re-engineered our credit underwriting and portfolio management processes for the enterprise mass market (which caters to customers with annual turnover of up to RM15 million) and launched credit scoring for this business segment, shortening turn-around times and improving our processing productivity.

The success of our cross-sell efforts resulted in the bank clinching several investment banking mandates in the large corporate segment, notably as co-arranger of the IPO of First REIT, the first hospitality REIT to be listed on the SGX, which raised S\$100 million. OCBC was also the joint financial advisor, lead underwriter and book runner for the S\$270 million IPO of Frasers Centrepoint Trust.

### TREASURY

Group Treasury achieved a 9% increase in net profit to S\$145 million in 2006, despite the continued flattening of the yield curve which depressed our treasury net interest income. Investments in boosting our treasury capabilities in overseas centers also paid off, with their net profit surging 127%.

Our enhancements in customer advisory, product structuring and

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pricing support resulted in significant growth in customer-related treasury revenues, ranging from 15% for basic foreign exchange products to over 67% for interest rate derivatives.

Over the past two years, we have enhanced our treasury team by hiring senior professional marketing managers from global investment banks, mid-career professionals as well as young graduates. This has led to a transformational improvement in our people management and marketing strategy. With intensive training, our treasury sales team is able to market multiple products across various asset and liability classes, and lend their support to deliver innovative treasury solutions for our customers.

We are replicating our successful model and experiences in Malaysia, our biggest treasury center outside of Singapore. Our Malaysia team had made their presence felt in the Ringgit Interest Rate Swaps, Options and Ringgit Forward Rate Agreement market. In terms of structured products, we are regarded as one of the biggest providers of Ringgit principal protected investments to investors in Malaysia.

Third party surveys showed that we are making good progress in our goal of becoming the “bank of choice” for treasury instruments in both Singapore Dollar and Ringgit currencies. OCBC was ranked top two in six (out of seven) Singapore Dollar denominated categories and top three in all Ringgit-denominated categories by *Asia Risk* Interdealer Survey 2006. OCBC also did well in the *Asia Risk* End User Survey 2006, with number one ranking in three Singapore Dollar denominated categories.

### INVESTMENT BANKING

Our Corporate Finance team had an active year due to the buoyant equity market in Singapore. OCBC sponsored seven new equity offerings, raising aggregate funds of S\$471 million. This included the IPOs of two REITs – Frasers Centrepoint Trust and First REIT – and three China companies. Leveraging on our own innovative tax credit-driven rights issue exercise in 2005, we successfully marketed the structure to our customers during the year, completing 10 deals and garnering 80% market share.

Our Capital Markets team successfully executed the first ever S\$-denominated ‘AAA’ commercial mortgage-backed securities transaction for a Singapore REIT, in a deal for Frasers Centrepoint Trust’s funding vehicle. OCBC remained one of the top bookrunners of variable rate notes and a major player in the Singapore Dollar bond market. On the syndicated loans front, we were ranked number three in Singapore by *IFR Asia* based on the value of executed deals. We have also expanded geographically by completing a number of deals in Hong Kong and Indonesia.

In Malaysia, we completed more landmark capital market transactions, including an asset-backed securitization transaction for Aragorn ABS Berhad and an Islamic securitization of oil palm assets for Kwantas Corporation Berhad. Rating Agency

Malaysia Berhad accorded us the prestigious “New Asset Backed Securitization (“ABS”) Benchmark Deal Award 2006”. We continued our pioneering efforts in Islamic financing with the issuance of RM200 million *Mudharabah* Islamic bonds. The successful closure of a RM400 million three-year loan for Unisem, the largest and longest tenure syndication for a semiconductor company in Malaysia, further underpinned OCBC’s position as one of the leading arrangers in the Malaysian syndication market.

In addition to working with our Business Banking clients in Singapore and Malaysia, our Mezzanine Capital Unit also started marketing to clients in Hong Kong, China and Indonesia. In Singapore and Malaysia, we funded several companies which are targeting listing. Riverstone Holdings Limited, one of the companies we invested in, was successfully listed on the SGX. In addition, we funded two prime residential development projects in Singapore, including a direct equity stake in Greenix Limited to develop a project on Sentosa Island.

### TRANSACTION BANKING

OCBC continued to strengthen its position as a provider of best-in-class cash management products and services in Singapore and Malaysia. Significant resources were channelled to improve the usability and functionalities in *Velocity@ocbc*, our flagship business Internet banking service. Our online customer base in Singapore and Malaysia increased by 19% and 29%, respectively, while transaction volumes rose 21% in Singapore and by 11 times in Malaysia. We were awarded Best Corporate/Institutional Internet Bank in Malaysia by *Global Finance* magazine for the second year running in 2006.

In Singapore, we launched *eAlerts@ocbc*, which alerts customers of their current account status such as funds top-up alert and cheque clearance. We also enhanced our two-factor authentication security measure for Internet transactions through *Velocity@ocbc*.

Our trade finance business registered healthy growth in both Singapore and Malaysia. In Singapore, our financing of import and export transactions increased by 11% and 25% respectively. We also became the first local bank in Singapore to sign up with the International Finance Corporation (IFC) as a “Confirming Bank” in the IFC Global Trade Finance Program. This allows us to better service the trade flows with emerging markets, and reinforces our commitment as a serious global trade finance player.

In Malaysia, our trade revenues increased 23% and our SME trade customers grew 22%. We successfully launched a trade credit programme, *Order Based Import Financing Programme*, to support Malaysian SMEs’ trade finance needs. This programme was previously available only to large corporations. We also established a dedicated contract financing department to tap opportunities in the oil and gas, contract financing and government sectors.

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Our subsidiary OCBC Trustee became the first local bank-backed trust company to receive a Trust Business Licence in Singapore. This allows us to better serve the wealth management needs of our high net worth customers, and to take full advantage of opportunities in the growing trust services industry in Singapore.

### MALAYSIA

OCBC Malaysia achieved another year of strong operating performance and market share gains. Operating profits before allowances increased by 19% to RM666 million, driven largely by higher net interest income from loans growth and improved interest margins. Net profit grew by a slower 4% to RM431 million (S\$187 million), as the previous year's results were boosted by a net allowance write-back of RM26 million, compared to allowances of RM63 million in 2006. Total assets grew by 19% to RM36.7 billion, while customer loans increased by a broad-based 10% to RM23.9 billion.

Following the liberalisation initiatives introduced by Bank Negara Malaysia in early 2006, we added three more branches to our network, raising the total to 28 branches across Peninsula and East Malaysia. The new branches – in Batu Maung (Penang), Puchong (Selangor) and Miri (Sarawak) – serve the needs of the immediate neighbourhoods as well as the wider customer base in the surrounding areas. Notably, the Puchong branch now serves as a mobile sales hub for the entire southern Klang Valley area, while the Miri branch focuses on the northern Sarawak region.

OCBC Malaysia's Islamic Banking division continued its steady growth, achieving RM3.2 billion in assets, RM2.6 billion in customer deposits, and RM1.6 billion in outstanding financing as at end-2006, representing growth rates of 35%, 35% and 17% respectively. Among the highlights for 2006 were the launch of the inaugural *OCBC Islamic Banking Week* and the completion of a cross functional process improvement project which allowed us to deliver approvals for our popular Islamic personal financing product, *Cash Financing-i* within 24 hours of our receiving a customer application, a first in Malaysia. We also reduced the time-to-cash for the product to just five days, compared to an average of three weeks previously. We continued to participate in a variety of exhibitions and forums to promote Islamic Banking and, as in the past eleven years, contributed zakat (Muslim tithe) in line with the Syariah principle of providing for the poor and needy in society.

To diversify and strengthen OCBC Malaysia's Tier-2 capital and support the ongoing expansion of our Islamic Banking business, we raised RM200 million from the issue of Malaysia's first Islamic subordinated bonds, based on the Islamic principle of *Mudharabah* (profit sharing). The bonds are rated AA2 by Rating Agency Malaysia Berhad.

### INTERNATIONAL

Outside of Singapore and Malaysia, OCBC has an international network of 24 branches and representative offices in 13 countries across ASEAN, Greater China and selected OECD countries. Our 72.3%-owned subsidiary Bank NISP has an additional 259 branches and offices across Indonesia.

Favourable regional economic conditions contributed to healthy performances for our overseas branches in 2006, particularly in Southeast Asia and Greater China. We also established strategic partnerships with Ningbo Commercial Bank in China and VP Bank in Vietnam through the acquisition of minority stakes.

#### Indonesia

Bank NISP delivered robust results in 2006 amidst an improving macro-economic environment. Despite the absence of investment gains which boosted the previous year's results, its net profit rose 16% to IDR 237 billion (S\$41 million), contributed by strong loan growth of 26%, improved interest margins and higher non-interest income. Total assets grew by 21% to IDR 24.2 trillion.

During the year we intensified our business collaboration and capability transfer efforts to further support the expansion of Bank NISP's consumer and SME businesses. About 900 of Bank NISP's branch-based staff were trained in OCBC's customer service programme as they geared up for the rapid expansion of the branch network, with 69 new branches and offices opened during the year. In bancassurance, the collaboration with Great Eastern Life contributed to the 40% jump in Bank NISP's insurance fee income. In business banking, a project to re-model Bank NISP's small enterprises business was undertaken, by adapting OCBC's business model. *Velocity@nisp*, which was first introduced to Bank NISP's SME customers in 2005, achieved encouraging sign-ups of more than 700 customers. In addition, OCBC continued to actively assist in Bank NISP's ongoing improvements to their risk management, audit, IT and operational platforms and processes.

#### China

OCBC was the first Singapore bank to acquire a stake in a Chinese bank, with our purchase of a 12.2% stake in Ningbo Commercial Bank ("NCB") for RMB570 million (S\$122 million). The transaction was completed in June.

We established a comprehensive training and technical assistance programme aimed at developing the leadership and staff of NCB, in support of their efforts to transform the bank into a leading regional player in the Chinese financial sector. Five training sessions were conducted for NCB's management at OCBC Singapore and Malaysia during the year, covering consumer banking, business banking, treasury, risk management, and operations



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& technology. We also launched several joint initiatives to drive business collaboration between OCBC and NCB in trade finance, investment banking, cross-border financing and treasury.

NCB achieved a strong operating performance in 2006. Its audited net profit grew 34% to RMB632 million (S\$124 million). Loans grew 43%, while its asset quality and capital position remained strong, with an NPL ratio of 0.3% and total capital adequacy ratio of 11.5% as at end-2006.

Our China branch operations also enjoyed healthy business growth, with our business banking activities benefiting from the continued inflow of investments into China and growth in intra-regional trade. Our Greater China SME business is focused on several industry value chains in the Yangtze River Delta region. In consumer banking, we continued to develop our wealth management services targeting the growing affluent in China, in preparation for the liberalisation in RMB-based retail banking to local residents.

In February 2007 we received approval from the China Banking Regulatory Commission to commence preparation for local incorporation. With local incorporation, we will be able to broaden the range of RMB products and services to serve both corporate and consumer customers in China.

### Vietnam

In October 2006, OCBC acquired a 10% stake in Vietnam Joint-Stock Commercial Bank for Private Enterprises ("VP Bank") for VND 250 billion (S\$25 million), becoming the first Southeast Asian bank, and the fourth foreign bank, to acquire a stake in a commercial bank in Vietnam. We have an option to increase our stake to 20% by the end of 2007, subject to regulatory approvals and the relaxation of the current single foreign shareholder limit of 10%. This investment positions us for growth in Southeast Asia's fastest growing economy, and we intend to work with VP Bank to build a leading consumer banking and SME franchise in Vietnam, leveraging on our experience in the region.

### OPERATIONS & TECHNOLOGY

Our Operations & Technology division continued to focus on delivering greater cost efficiency, productivity, and service excellence. We set targets of achieving 25% productivity improvement and 15% unit cost reduction over two years through rigorous process improvement efforts and quality initiatives.

A number of hubbing, quality, IT and procurement initiatives were executed during the year, yielding cost savings and margin improvements:

- We achieved productivity improvements of 11% and unit cost reductions of 9% across seven operations factories in Singapore and Malaysia for 2006.

- Hubbing of Singapore cards approval processing to Malaysia was successfully completed. Over the past two years, we have completed the cross-border hubbing for four major work streams to Malaysia – account services, trade finance operations, card operations, and cards application processing – and achieved more than 20% reduction in unit costs.
- We delivered 12% savings in our technology maintenance and support expenses.
- We established a Group-wide procurement policy and process and identified some early savings.
- Several joint initiatives with Great Eastern Life were completed, including a shared data network and infrastructure, business continuity planning and disaster recovery facilities, thereby enhancing the contingency support between the two companies.

We are building a clear IT architecture and strategy with a long-term technology application roadmap as we continue to consolidate and rationalise our suite of systems. During the year we improved our technology service management facility by deploying a state-of-the-art Enterprise Monitoring System together with the Technology Dashboard to provide a consolidated and dynamic view of our service performance, thus allowing for early problem detection, quick resolution and proactive prevention. We also undertook the following projects as part of our capability building investments:

- Use of a new Service Oriented Architecture to provide reusability of enterprise-wide business application software, thereby lowering implementation cost and improving IT response to business needs
- Implementation of a new private banking system to present a single consolidated view of our private banking customers, thereby facilitating better service
- Further enhancements to our infrastructure and delivery channels including ATMs, mobile banking, internet banking, and other self-service channels
- Consolidation of treasury system support onto a new single platform for both Singapore and Malaysia
- Development of an end-to-end credit risk management system covering loan origination and central liabilities tracking, with the first phase being implemented in November.

### QUALITY & PROCESS INNOVATION

We continue in our relentless pursuit of differentiating OCBC through service excellence, grounded on improvements in Quality. Delivering Six Sigma excellence forms the foundation of our efforts to provide a great customer experience at OCBC.

With strong executive sponsorship and cross functional project teams, our quality and process innovation efforts across Singapore and Malaysia have gathered increasing momentum, resulting in

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quantum improvements to some key customer-facing processes:

- Our corporate account opening process was radically redesigned and simplified to provide greater convenience and speed to corporate customers. Customers can now establish a new account relationship with the bank instantaneously with minimal documents to be submitted. This is a breakthrough in view of the previous complex documentation that was expected of our corporate customers, making it easier for our customers to do business with OCBC.
- Through innovative process redesign and industry benchmarking, the cycle time of application to disbursement for our *Cash Financing-i* product in Malaysia has been trimmed from 15 days to 5 days.
- The post-approval credit facility fulfilment process for corporate customers has improved significantly, allowing our customers to draw down their approved loans faster.

Simplified processes such as the above have facilitated the acquisition of new customers at a much reduced cost. Improved customer engagement processes also result in clear target markets and risk acceptance criteria, enabling us to achieve higher approval rates without compromising on risk.

### PROPERTY MANAGEMENT

OCBC Group's investment properties, amounting to more than two million square feet of net lettable area and mainly located in Singapore, are actively managed to optimise rental returns and capital values. Our office, retail and residential properties performed well in 2006, achieving full or near full occupancy. We sold our residential development land at Kim Seng Road for S\$329 million, realising a net gain of S\$260 million.

We launched a major renovation programme for our head office building OCBC Centre, upgrading the common areas, interior amenities and engineering services. The urban plaza of OCBC Centre is also being enhanced with the introduction of lush landscaping surrounding the renowned Henry Moore sculpture. The upgrading programme is expected to be completed by the end of 2007.

### HUMAN RESOURCES

Our Group staff strength rose 8% in 2006 to 15,858, with most of the increase coming from Bank NISP, OCBC Malaysia and our

China operations. This was in line with the increased resources being deployed for our overseas expansion.

Our human resource efforts are focused on providing employees with appropriate training and career development programmes, opportunities to refresh their careers, as well as improving overall employee satisfaction so that OCBC will be increasingly recognised as a regional employer of choice. Good progress was made in 2006, with the employee engagement score from our annual employee survey showing a further improvement of 5 percentage points from the previous year, marking the fourth consecutive year of improved scores.

Average training man-days per employee rose 16% to 7.9 man-days, once again exceeding our target of five man-days. A new training centre, named *OCBC Learning Space*, was opened at our head office building OCBC Centre, providing a more conducive learning environment for all staff. We introduced a structured three-year training programme – the *OCBC Learning-3* – for all new executives.

We have intensified our talent recruitment and management initiatives overseas to build greater diversity, cross-border management skills and to support our regional expansion. We participated in various campus events in Singapore, Malaysia, China, Australia, the UK and the USA to recruit graduating students. Management associates were also recruited for our Malaysia and China operations for the first time. In addition, more of our employees are being given opportunities for cross-border assignments.

Continuing our pro-family initiatives, we opened a new child care facility at OCBC Centre in January 2007 to provide child care support services for our employees, a first among financial institutions in Singapore. In response to employee feedback, we have also enhanced our employee benefits programme, the *OCBC Flex Plan*, providing employees with greater flexibility and choice.

We launched our second *Employee Share Purchase Plan (ESPP)* for the offering period July 2006 to June 2008, achieving a participation rate of 41%, an improvement from the 33% participation for the first plan launched in 2004. Including employees who hold share options and deferred shares, our employee shareholding now stands at 39%, up from 29% in 2005.