

## Operations Review

Our core businesses delivered good results in 2009 under challenging operating conditions. In particular, our overall asset quality held up well compared to previous recessions, benefiting from the improvements we have made to our risk management practices and processes over the years, as well as concerted government support and stimulus measures targeting employment and small and medium enterprises (“SMEs”). We capitalised on pockets of growth opportunities, and remained focused on deepening market penetration in our key markets and customer segments. We also continued to invest in customer service initiatives aimed at providing a deliberate and differentiated experience for our customers.

### GLOBAL CONSUMER FINANCIAL SERVICES

The financial crisis and economic recession led to reduced consumer spending and in particular, adversely impacted the demand for investment products. As a result, our consumer banking business registered a 7% fall in revenue to S\$1.22 billion and a 10% decline in pre-tax profit to S\$605 million for 2009. Nevertheless, we continued to engage customers with new products, service improvements and marketing campaigns, achieving an 8% increase in our global consumer customer base to more than 2.6 million by the end of the year.

We remained a strong bancassurance player in both Singapore and Malaysia, leveraging on our strategic partnership with Great Eastern to cross-sell products to meet the different needs of our customers in different life stages. We maintained our number one position in bancassurance in Singapore with a market share of 32%. In Malaysia, we tripled our bancassurance sales, capitalising on the liberalisation measures announced by the government, which enabled us to launch a full fledged bancassurance partnership with Great Eastern Malaysia in July 2009.

We also continued to grow our deposit base in Singapore, Malaysia and China. In Singapore, we are the market leader in Children Development Accounts for newborn babies under the government's Baby Bonus Scheme, with a market share of 95%. In Malaysia, we grew our deposit base by 9%, following a 21% increase in 2008. In China, we doubled our deposit customer base and grew the total deposits by 50%.

Home loans remain an important segment in our consumer loans portfolio. Led by a rebound in the Singapore residential property market in the second part of the year, new housing loan approvals rose significantly for both our private and HDB portfolios. Our China home loans portfolio has more than tripled since the launch of our home loan products there in 2008.

We have implemented several new measures to enhance our customer engagement process. We re-engineered our sales processes across different product classes, and made several

improvements to our sales practices, implementing higher disclosure and fair-dealing standards, refresher training and certification for all front line staff. We also introduced a new remuneration structure for all front line staff that aligns rewards with sales results and service quality. We established a Fair Dealing Framework, within which a Product Suitability Committee, chaired by a member of our senior management team, was formed to ensure that the new products and services we offer are suitable for our target customer segments. As part of this framework, we reviewed all existing products to ensure that they are suitable for our target customer segments.

We introduced new products to cater to our customers' different life stage needs. In June, we launched the OCBC Mortgage Blueprint, a revamped home loans sales process that helps our certified Mortgage Specialists guide our customers through a structured process to determine their needs before advising them on appropriate home financing solutions and complementary financial products. In October, we launched our OCBC SmartSenior Programme, which offers banking solutions and privileges to meet our customers' financial, self-enrichment and lifestyle needs in their retirement phase of life. A key feature of this programme is the SmartSenior Account, which enables children to fulfill filial piety to their parents by channelling a regular flow of funds from their bank accounts to their parents' SmartSenior accounts.

We continued to invest in our service and delivery channels to provide a superior and differentiated banking experience. In Singapore, we opened three new branches and a new Premier Banking Centre at the new shopping destination, ION Orchard. We now have one of the largest premium banking service networks among banks in Singapore, with a total of 12 OCBC Premier Banking centres. Our popular full-service Sunday Banking offering has been extended from 15 to 18 branches in Singapore, and from one to three branches in Malaysia. We also increased our ATM fleet across the island by 20%, adding new ATMs at Caltex petrol stations, MRT stations, polytechnics, tertiary institutions and new shopping malls. Our wholly-owned Islamic banking subsidiary in Malaysia, OCBC Al-Amin, opened four new branches in 2009, following the opening of the first branch in December 2008.

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During the year, we won several awards for product innovation and service excellence. We were recognised by *The Asian Banker* as the Best Retail Bank in Singapore, and for Excellence in Customer Advocacy in Asia. SPRING Singapore conferred OCBC the Service Excellence Award, the highest accolade given to an organisation for excellence in retail services. At the same time, 234 staff from our Consumer Financial Services unit received SPRING Singapore's Excellent Service Award for individual display of excellent service. For the third year running, our Contact Centre in Singapore was awarded the Best Contact Centre of the Year by the Contact Centre Association of Singapore. We were the only Singapore bank to win the award for Innovation in Mobile Phone Banking at the Financial Insights Innovation Awards 2009.

### GLOBAL CORPORATE BANK

Our Global Corporate Bank's revenues rose 5% to S\$1.48 billion, led by growth in net interest income and higher fee income from investment banking products. Pre-tax profits were largely unchanged from the previous year at S\$830 million, as a result of higher loan allowances. We achieved a 10% increase in the number of small and medium enterprise ("SME") customers, on a global basis. Overall, loan growth across different customer segments and geographical locations was steady, underscoring our commitment to support both our large corporate and SME customers during the global economic downturn. In Singapore, notable financing mandates included a US\$1.1 billion term loan extended to Singapore's PSA International, and a S\$724 million term loan to Gold Ridge for a commercial property development. In Malaysia, we were joint lead arrangers for a RM430 million syndicated Islamic financing facility for Kulim (Malaysia) Berhad, a US\$500 million facility for a subsidiary of Khazanah Nasional Bhd and a US\$280 million facility for a subsidiary of Sime Darby Bhd.

We actively participated in the government assistance loan schemes in Singapore, Malaysia and Hong Kong, providing financing to SMEs across different industries. We ended the year as one of the top three participating financial institutions in Singapore, and top five in Malaysia, for these loan schemes.

In Singapore, we launched Business TradeEase, a new trade programme for emerging businesses which includes a hassle-free application process and fast turnaround for trade documents. We also introduced BizProtect Plan, an insurance product tailored for SMEs in different industries such as retail, motor workshop, manufacturing, engineering and logistics. In recognition of our product and service innovation in serving SMEs, our Emerging Business unit became the first customer-facing unit of a commercial bank to receive the Singapore Innovation Class ("I-Class") Certification for Excellence In Innovation Management from SPRING Singapore.

### Group Transaction Banking

Our customer base for *Velocity@ocbc* grew by a third in both Singapore and Malaysia, driven by greater customer demand for effective cash management tools in a tight liquidity environment. In China, payment volumes doubled since the introduction of convenient payment capabilities via *Velocity@ocbc* in the later part of the year.

In Singapore, we remained the only bank that offers employers the convenience of paying their employees' CPF contributions online via *Velocity@ocbc*. We also enhanced our *eAlerts@ocbc* service to enable our corporate customers to stay updated on their cash flow positions and trade transactions.

We continued to deliver value to our business customers with new trade products and services. In Malaysia, we introduced *Speedy Advice* to provide trade finance transaction notification to customers automatically via facsimile. We also set up a Trade Finance Academy to help corporate customers better understand the use of trade finance instruments to facilitate cross-border trades. In China, we launched a number of trade products including bank acceptance drafts, bills purchasing and discounting under Letters of Credit, and USD cheque collections, achieving a comprehensive suite of basic trade products and services for our corporate customers. We were the first Singapore bank to participate in China's Renminbi trade settlement programme, a new service which allows our Singapore network customers to settle their trade transactions with China counterparts in Renminbi.

We garnered several cash management awards in 2009, including Best SME Cash Management Solution Bank by *The Asset* for the second year running, and Best Cash Management Bank in Singapore by *FinanceAsia* for the third consecutive year. In Malaysia, we were voted by large and SME companies as the Best Foreign Cash Management Bank for the second year running in *Asiamoney's* 2009 Cash Management Poll. We were also named the 2009 Best Corporate/Institutional Internet Bank in Malaysia by *Global Finance*.

### GLOBAL TREASURY

Market volatility and the consolidation in the global banking sector in 2009 created more opportunities for our Treasury business, for both customer- and market-facing activities. We stepped up efforts to provide risk advisory products and services to both individual and corporate customers. Increased treasury activities in our key markets led to a 20% growth in revenue to S\$816 million, and a 26% increase in pre-tax profit to S\$600 million.

OCBC was again ranked first in several Asian polls for various Asian local currency treasury products, in recognition of our strengths in product coverage, product innovation and customer service. In the *Asia Risk Corporate End User Survey 2009*, we were ranked top three for all SGD- and MYR- denominated treasury products. We were also awarded the Best Domestic Provider for Local Currency Products in Singapore by *AsiaMoney Polls 2009*.

### GROUP INVESTMENT BANKING

OCBC ranked second in the International Financing Review ("IFR") Asia league table for Singapore dollar domestic bonds, with S\$1.9 billion from 16 issues, representing a 29% market share. We were also recognised by *Alpha Southeast Asia* as the Best Bond House in Singapore as we emerged as the top bookrunner for Singapore dollar bonds and syndicated loans. Notable deals managed during the year included a commercial mortgage-backed securitisation transaction for Winmall, a 20-year bond issue for SP PowerAssets, and financings for Orchard Parade Holdings, PT Protelindo and PT Adaro.

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In Singapore, our corporate finance team lead-managed various equity capital market deals, raising an aggregate of S\$784 million during the year. Key deals included arranging rights issues for Bukit Sembawang, United Engineers, WBL Corporation and Frasers Commercial Trust, and a share placement for Ying Li, a Chongqing-based property developer.

In Malaysia, we ranked second in Bloomberg's Malaysia Loans Mandated Arranger league table with OCBC Al-Amin's maiden syndicated financing transaction of RM430 million for Kulim (Malaysia) Bhd, OCBC Malaysia's US\$500 million syndicated loan for a wholly-owned subsidiary of Khazanah Nasional Bhd, and US\$181 million Multi-Currency Syndication Project Financing for SapuraAnergy Sdn Bhd. We also successfully participated in a RM1.7 billion club deal facility for Delegation Sdn Bhd to finance the privatisation of listed state-owned Sarawak Energy Bhd.

Our Mezzanine Capital unit continued to invest in companies across different industries and countries. The unit also arranged financing for several Singapore corporate customers in the real estate and marine sectors, and divested some of its investments in the second half of the year as the stock market recovered.

### OCBC MALAYSIA

OCBC Malaysia ranks among the largest foreign banks in Malaysia by assets, deposits and loans, and has one of the largest networks of 29 conventional and five Islamic Banking branches. Its operating profit grew 6% to RM998 million. Net profit however posted a marginal decline of 1% to RM608 million (S\$250 million) due to higher net loan provisions, as the previous year had the benefit of larger one-off loan recoveries. Customer loans grew 5% to RM32.6 billion as we exercised greater caution in customer lending given the difficult economic environment.

Several new products and services were launched as part of our continuing efforts to differentiate from our competitors. For consumers, we pioneered a unique home loan product that is pegged to the mortgage lending rate ("MLR"), as an alternative to the commonly applied base lending rate ("BLR"). We were the first foreign bank to be able to make retail remittances in Renminbi to China, as an alternative to US Dollars. We also introduced weekend banking for children, where customers are treated to an array of family-based events and activities as they conduct their banking transactions.

Since the launch of our branch transformation programme in 2007, we have renovated 10 of our 29 branches, incorporating our new branch design. Through our strategic collaboration with Great Eastern (Malaysia), launched in July 2009, bancassurance products are now offered at all our conventional bank branches.

We successfully raised RM400 million in Tier 1 capital to enhance OCBC Malaysia's capital position. RAM Rating Services Berhad upgraded OCBC Malaysia's long-term financial institutions rating from AA1 to AAA in November, the highest level assigned by the rating agency.

OCBC Malaysia's Islamic Banking subsidiary, OCBC Al-Amin, grew its assets by 30% to RM4.9 billion, and its customer deposits by 38%

to RM3.7 billion. We were appointed as a panel bank by the Ministry of Finance of the Malaysian Government, enabling us to accept deposits from government ministries and agencies, and government-linked corporations. We also continued to add new OCBC Al-Amin branches to the inaugural branch opened in December 2008. Four new branches were opened during the year; one each at Sungai Petani in the north and Skudai in the south, and two branches in the Klang Valley. This brings our total number of Islamic Banking branches to five.

OCBC Al-Amin introduced several new products and services including Shariah-compliant cash management solutions for SMEs, and unit trusts and home financing products for individuals. We also jointly managed our first Islamic syndicated term-loan facility for Kulim (Malaysia) Berhad.

### BANK OCBC NISP, INDONESIA

Our subsidiary, Bank OCBC NISP, reported a healthy set of financial results as Indonesia weathered the financial and economic crisis better than other South East Asian countries. Net profits grew 38% to IDR436 billion (S\$61 million), driven mainly by higher net interest income. Total assets grew 8% to IDR37 trillion, with loans increasing by 5%. Total deposits achieved strong growth, with saving deposits increasing by 71% and demand deposits by 8%.

OCBC NISP continued with its transformation programme, positioning itself as a "Partner for Life" to our customers. Various industry best practices were implemented during the year. An internal communications programme was also rolled out to share our new organisation structure to more than 5,500 employees. Management and staff across the organisation were also trained in quality concepts as part of our effort to cultivate an improved service mindset.

With the support and transfer of know-how from OCBC Al-Amin, OCBC NISP launched Islamic banking products and services to meet the needs of Muslim customers in Indonesia.

OCBC NISP received various local and regional awards in 2009, including the Best Retail Bank Indonesia 2009 by *Asian Banking and Finance*, Best Corporate Governance for Financial Category 2009 by *Business Review* and the Indonesian Institute for Corporate Directorship, and one of Indonesia's Best Managed Companies by *FinanceAsia*. We were also voted Best Domestic Foreign Exchange Provider for Corporates in *Asiamoney's* 2009 Foreign Exchange Poll.

As part of our network strategy to acquire more deposits and support our micro banking business, OCBC NISP opened 18 new branches and set up 15 new ATMs throughout Indonesia, bringing the total network size to 382 branches and 552 ATMs.

### OCBC CHINA

Our China operations achieved loan growth of 13%, largely driven by growth in corporate loans and consumer mortgages. Staff strength grew 5%, as we paced our investments in China in view of the difficult economic environment.

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We introduced a complete range of bancassurance products in Chengdu, including insurance products for family protection, retirement, education, as well as medical and accident protection. The demand for these products was strong, contributing to the doubling of our retail customer base by the end of the year.

We received industry recognition for delivering quality products and building a strong consumer franchise in China. Most notable were two awards that were presented by the *Chengdu Shangbao* newspaper for Best Foreign Bank in Chengdu, and Best Wealth Management Brand, Joaquim, for our Premier Banking service in Chengdu. Our two-year RMB-equity linked structured deposit product was voted the Best Structured Wealth Management Product by *Money Week*, for consistently delivering safe and sound returns to our retail customers.

For our corporate customers, we rolled out more features to our corporate internet banking platform, *Velocity@ocbc*, to provide choice and convenience when banking with us in China.

We added one new main branch in Chongqing, expanding our foothold in the Western region of China. We also strengthened our presence in the Yangtze River Delta by opening a new sub-branch in Shanghai's Jiading district. The Jiading sub-branch, modelled after our successful Ubi Business Banking Centre in Singapore, is our first full-service business banking branch in China, and is located in a major industrial district. By December 2009, we had grown our national network to a total of 11 main and sub-branches in eight major Chinese cities.

### PARTNER BANKS

#### Bank of Ningbo, China

In support of Bank of Ningbo's ("BON") proposed private placement exercise, OCBC agreed to subscribe for approximately 146.3 million new shares, which will increase our strategic equity stake in BON from 10% to 13.7%. The transaction is expected to be completed in 2010.

BON reported a satisfactory set of financial results for 2009, with net profits rising 9% to RMB1,457 million (\$310 million). Customer loans rose 67%, driven by BON's rapid business expansion in key cities across China, and healthy loan demand from customers. BON's non-performing loans ratio remained low at 0.8% as at end of the year.

BON opened a new branch in Suzhou, adding to its branch network covering Shanghai, Hangzhou, Nanjing and Shenzhen, and its home city Ningbo. This brings its nationwide branch network (inclusive of its sub-branches) to 88. During the year, management at OCBC continued to deepen our collaboration with BON in new product development, risk management, information technology, and talent development.

#### VP Bank, Vietnam

OCBC holds a 15% stake in VP Bank. VP Bank has a nationwide network of 130 branches and transaction offices, including 44 in Hanoi and 26 in Ho Chi Minh City.

OCBC and VP Bank continued to work closely together in the areas of risk management, new product development, business strategy, treasury, and training. As part of our technical assistance programme, we organised training sessions for VP Bank's management and staff in the areas of treasury, internal audit and commercial banking during the year.

### GROUP OPERATIONS AND TECHNOLOGY

Our Operations and Technology division achieved good progress towards our target of achieving 12% reduction in unit costs and 18% improvement in productivity gains over 2008. In 2009, we achieved unit cost reduction of 6% and productivity gains of 20% across 15 processing centres in Singapore and Malaysia.

Process improvement projects completed during the year generated almost S\$3 million in annualised savings. In Singapore, we introduced simplified application forms and streamlined our credit approval process, resulting in a shorter approval cycle of one day for additional credit cards for existing customers. We improved the processes to provide best-in-class straight-through processing for US dollar remittances, which earned us the JP Morgan Quality Recognition Award for our treasury and payment processing centres. In Malaysia, we reduced our loan redemption cycle time by 14 days to seven days.

We completed the hubbing of one more work stream in Malaysia, bringing the total to nine since we started hubbing activities in 2005, allowing us to reap significant benefits from lower staff and premises costs.

In 2009, we consolidated the data centres of OCBC and Great Eastern to achieve greater cost savings. We reduced the total number of data centres in Singapore and Malaysia from five to three.

We continued to build on our IT architecture and long-term system application road map, and strengthen our service management and project delivery capability. Our project highlights for the year included the following:

- Enhancement of our branch teller system to improve the account opening process
- Deployment of a new relationship-based pricing system to provide price differentiation, product bundling and consolidated billing for our corporate customers
- Deployment of a new liquidity management system to provide a wider range of cash management services for our corporate customers
- Implementation of an advanced Anti-Money Laundering and Fraud Management system to better manage our operational and reputational risks
- Enhancement of our international banking platform to enable country-specific regulatory reporting
- Deployment of new treasury, internet banking and payment systems in China
- Deployment of new cash management and internet banking systems for OCBC NISP in Indonesia

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### GROUP QUALITY AND SERVICE EXCELLENCE

The global economic downturn did not distract us from our bankwide Service Excellence transformation agenda. We continued to drive service excellence in OCBC to ensure that our customers enjoy a deliberate and differentiated banking experience across all touch points. Customer insights obtained from various channels, such as customer surveys and focus groups, and customer complaints and compliments, were deployed in our service innovation and improvement efforts to make banking easy and convenient for our customers.

All branch managers and customer service managers were trained as service coaches under a structured development programme. Our efforts in building a strong service culture have reaped good results. During the year, 336 of our employees across various divisions won the Excellent Service Award in the Silver, Gold, and Star categories, more than double the number of employees who received the award in 2008. This national award managed by the Association of Banks in Singapore and SPRING Singapore recognises individuals for delivering outstanding service to customers.

We strive to instill a Six Sigma Quality Excellence mindset in all employees; ensuring that we deliver with zero defects on time and all the time. We executed five cross-functional process improvement projects in Singapore, Malaysia and Indonesia. We trained more than 70 new Quality Leaders who drive quality and process improvements across OCBC. All these initiatives have contributed to increased customer and employee satisfaction as measured by recent surveys, as well as potential margin improvements of more than S\$7 million.

We also established a Fair Dealing Committee as a senior management body to provide clear oversight and governance to ensure that we deal with our customers in a fair manner, consistently throughout OCBC.

### PROPERTY MANAGEMENT

Our office and residential investment properties, with an aggregate of approximately two million square feet of net lettable area, achieved full or near full occupancy despite the challenging property rental market environment, particularly in the first half of the year.

We completed the refurbishment of three bank branches in our network as part of our Branch Transformation programme, two in Singapore and one in Malaysia. We also opened three new branches in Singapore, four in Malaysia under our Islamic Banking subsidiary, and two in China. In Singapore, a total of 80 off-site ATMs were installed in shopping malls, polytechnics, and Caltex petrol stations.

We continued to adopt environmentally friendly practices such as the usage of NEWater in our central air conditioning chiller systems, various energy saving measures, tenants' education, recycling initiatives, as well as the use of environmentally friendly products in our renovation and maintenance works.

### GROUP HUMAN RESOURCES

We continued to exercise strict discipline in adding headcount, improving productivity and tightening discretionary expenses. Our Group staff strength, including Bank OCBC NISP and Great Eastern Holdings, was 19,561 at the end of 2009, a decline of 2% year-on-year. While costs were managed tightly, we continued to invest in our people and develop talent within the Group through our learning and development programmes. The average training man days per employee has consistently been above seven days for the past four years, exceeding our target of five man days.

Our employee engagement score improved by 2% from the previous year, making 2009 the seventh year of consecutive improvement. Our employee share ownership schemes continued to receive high participation bankwide; the percentage of bank employees who are OCBC shareholders (including share options and deferred shares) was 52% at the end of 2009, well above our minimum target of 30%.