

Presentation to Media and Analysts

**New Horizons II -  
Embedding OCBC in the Region**

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- **New Horizons 3-year Report Card**
- **Market Scan**
- **New Horizons II – Embedding OCBC in the Region**
- **Conclusion**

## OUR ACTION PLANS

## 3-YEAR ACHIEVEMENTS

1. Research and segment the market further

- ✓ CRM & customer analytics contributing to competitiveness in consumer banking:
  - ⇒ 58% increase in av. cross-sales conversion rate
  - ⇒ Event-based leads generation for sales & retention
  - ⇒ Funds retention/recycling campaigns generate 40% - 80% response/conversion rates

2. Survey customers to understand their needs and offer appropriate products to as many segments as possible

- ✓ Interviewed 7,900 customers during customer satisfaction survey, on top of monthly customer service survey
- ✓ First authoritative research on money management behaviours of Singaporeans with SMU



3. Leverage our Great Eastern partnership in as many ways as possible

- ✓ GEH became a subsidiary
- ✓ #1 Bancassurance position in S'pore 3 years running; launched 30 new products with GE
- ✓ Referral scheme through GE agents in M'sia to distribute credit cards & mortgage loans




## OUR ACTION PLANS

## 3-YEAR ACHIEVEMENTS

4. Rapidly expand our existing customer base

-  • Average 7% p.a. growth in number of consumer customers
-  • 128% growth in Premier Banking customer base

5. Experiment with different business models to deliver financial services to the mass market

-  • Partnership with NTUC to offer union members exclusive benefits
-  • Worked with LaSalle-SIA, NTU and SMU to engage students and youths
-  • Extended reach of CRM platform to ATMs. OCBC is the 1st financial institution in Asia to deploy tailored offers to customers via the ATMs

***Become one of the top 3 consumer banks in the combined Singapore and Malaysia market in 3 years***



***Including the insurance business, OCBC is one of the top 3 consumer financial services providers in the combined Singapore & Malaysia market***

# Our Achievements – Businesses

## OUR ACTION PLANS

1. Maintain our current strong large corporate position
2. Research and segment the SME market so as to offer sound and competitive lending programmes
3. Survey customers to better understand their needs and offer appropriate products to as many segments as possible

4. Rapidly expand our SME customer base

***Become one of the top 3 SME banks in the combined Singapore and Malaysia market in 3 years***

## 3-YEAR ACHIEVEMENTS

-  • Average 9% p.a. growth in total revenues of large corporate business
-  • Introduced 28 new SME lending programmes offering asset based finance products and/or targeting industry segments
-  • SME customer satisfaction survey completed in Singapore and Malaysia. Market penetration maintained in Singapore and doubled in Malaysia
-  • Cross sell ratio for SME business increased by more than 190%
-  • Pioneered launch of Chinese version of *Velocity@ocbc* to better support Mandarin speaking customers
-  • Average 8% p.a. growth in number of SME customers

 ***OCBC is the most improved SME bank according to independent SME customer survey in 2005***



## OUR ACTION PLANS

## 3-YEAR ACHIEVEMENTS


### 1. Strive to build “best in class” products

-  • **Best Corporate/Institutional Internet Bank in Malaysia by Global Finance in 2005**
-  • **Best Trade Finance Bank (Singapore) by Global Finance in 2005**
-  • **Lion Capital won 3 awards in the S&P Investment 2006 Singapore Fund Awards and 6 awards in the Edge – Lipper Singapore Funds Awards 2006**
-  • **Islamic Securitisation**
  - ⇒ Malaysia’s 1<sup>st</sup> palm oil Islamic securitization for Rimbunan Hijau Group
  - ⇒ Focal Quality – Malaysia’s 1<sup>st</sup> Islamic securitization sponsored by International property fund and involving the pooling of assets

### 2. Constantly innovate, and target 15% of our revenues each year to come from new products

-  • **Launched more than 200 new products**
-  • **New product revenues grew to 16% of revenues in 2005 (6% in 2003)**

### 3. Drive for volume to reduce unit costs

-  • **Increase in transaction volumes across product lines range from 13% to 70% (from 2003 to 2005)**

## OUR ACTION PLANS

***Become one of the top 3 banks in the combined Singapore, Malaysia market for wealth management, transaction banking, treasury and investment banking products in 3 years***

## 3-YEAR ACHIEVEMENTS

- **Wealth Management**
  - ⇒ Combined Wealth product sales grew by 160%
  - ⇒ Formed Lion Capital Management , one of the largest asset management companies in Southeast Asia, through merger of OCBC Asset Management and Straits Lion AM
- **Transaction Banking**
  - ⇒ *Velocity@ocbc* customer base in S'pore doubled
  - ⇒ Monthly online transaction vols increased by 5X
  - ⇒ Corporate customers in Singapore using *Velocity@ocbc* increased from 20% to 35%
- **Treasury**
  - ⇒ Structured product sales volume grew 530%
  - ⇒ Customer-related revenues grew 292%
  - ⇒ Consistently ranked top 2 for SGD Forward Rate Agreements in AsiaRisk interdealer survey
- **Investment Banking**
  - ⇒ #1 in Singapore syndicated loans league table for 2005 (up from #4 in 2003)
  - ⇒ #1 for Malaysian Syndicated Loans (# of deals) [up from #5 in 2003]
  - ⇒ Best Bond House (S'pore) 2005 by Finance Asia
  - ⇒ IFR Asia – Singapore Loan House of the Year

# Our Achievements – Risk Management



## OUR ACTION PLANS

## 3-YEAR ACHIEVEMENTS

1. Continue to build our consumer and business loan books

• Average growth of 6% p.a. in OCBC's total loan portfolio

2. Maintain highly liquid liability base

• Diversified sources of funds through US\$500m MTN and US\$2 billion ECP programme

3. Deliver 100% "Pass" results for internal audits

• Implemented unit-by-unit self assessment programmes bankwide; continue to work towards our target of 100%

4. Maintain a strong "A" credit rating or better

• Continued to be one of the highest rated banks in Asia: Aa3 by Moody, A+ by S&P (upgraded from A in 2004) and AA- by Fitch (upgraded from A+ in 2005)

5. Implement credit processes which allow us to continue to originate and maintain a sound credit portfolio

• Credit Risk Review fully implemented with clear process improvements

• NPL ratio improved from 8.1% to 4.1%

• Loan- related allowances reduced from S\$365m to S\$51m



## OUR ACTION PLANS

1. **Centralise operations in 2 locations that will back each other up as recovery centres**

2. **Relentlessly drive down unit costs**

3. **Implement cross functional process improvement initiatives and strive for 6-sigma excellence**

## 3-YEAR ACHIEVEMENTS

- ✓ **• Hubbing project – On track:**
  - ⇒ Completed centralisation of M'sia backroom operations
  - ⇒ \$55m investment over 2 years to create processing hubs in Singapore & Malaysia for selected back office operations (average 2 – 3 year payback)
  - ⇒ Established two wholly owned subsidiaries to insource operations, and obtained MSC status in Malaysia

- ✓ **• Average unit cost reduction of 10% p.a. across 7 product processing factories**

- ✓ **• Institutionalised Quality training as core programme; more than 6,300 employees trained to-date**
- ✓ **• Executed 19 process improvement projects with expected margin improvement exceeding \$90 million**


## OUR ACTION PLANS

1. Develop more local talent in each of our markets through extensive training and proactive career development programmes

2. Reward high performing employees through increasingly differentiated incentive compensation programmes


3. Implement new share ownership schemes to enable all our employees to participate easily

## 3-YEAR ACHIEVEMENTS

 • “Career Best” training conducted for more than 1,800 employees from 2003 to 2005 to improve individual performance feedback and enhance career planning

 • Average training days per staff rose 35%

 • 1,476 jobs were filled internally

 • Percentage of performance-linked incentive pool paid to high performers increased by 23%

 • 1/3 participated in Employee Share Purchase Plan introduced in 2004

 • Deferred Share Plan now entering its 4<sup>th</sup> year with more than 80% of our senior executives as recipients

## OUR ACTION PLANS

***More than 30% of our employees as shareholders in 3 years***

## 3-YEAR ACHIEVEMENTS

- Employee shareholding***
  - ⇒ ***Employee shareholding grew to 29%, if employees on deferred shares and share purchase schemes are included, up from 6% in 2002***
  
- Overall OCBC Employee Survey***
  - ⇒ ***Engagement score improved 52%***

## OUR ACTION PLANS

## 3-YEAR ACHIEVEMENTS

1. Deliver 10% EPS growth p.a.

 • Average EPS growth of 23% p.a. (excluding divestment gains)


2. Target minimum 35% dividend to core earnings ratio

 • Payout increased from 30% in 2002 to 44% in 2005; dividend per share increased by 176%

3. Seek to “swap” non-core assets for core financial services growth opportunities

 • Realised S\$301m gains from non-core asset divestments

- ⇒ Divested stakes in F&N, WBL Corp, Raffles Hotel, Raffles Investments, two properties, Straits Trading (pending completion)

 • Investments totalling S\$636m in core financial services

- ⇒ 72.3% stake in Bank NISP (S\$516m)
- ⇒ 12.2% stake in Ningbo Commercial Bank (S\$120m) – pending completion by mid 2006

4. Raise alternative Tier 1 capital to improve ROE

 • Capital Management Initiatives

- ⇒ Raised S\$1.3bn of perpetual preference equity and hybrid capital (constituting 14% of Tier 1 capital at Dec 05)
- ⇒ Completed Malaysia’s 1st issuance of rated RM preference shares which qualify as Tier 1 capital for OCBC Bank Malaysia

## OUR ACTION PLANS

5. Deliver 12% ROE in three years
6. Maintain Tier 1 capital (and total capital) at a comfortable cushion above regulatory minimums
7. Seek to return excess capital to shareholders via share buy-back programmes

## 3-YEAR ACHIEVEMENTS

- ROE improved from 7.4% in 2002 to 11.4% in 2005
- Cash ROE of 11.7% in 2005
- Tier 1 and total CAR of 13.4% and 17.5%, well above regulatory minimums
- Returned more than S\$2.5bn in excess capital since 2003
  - ⇒ Through a special dividend, two selective capital reductions, and two share buyback programmes
  - ⇒ This is in addition to S\$1.06bn of ordinary dividends paid over the 3 year period
- ***OCBC's share price was best performer among peers but below STI's 75% increase (Dec 2002 – Dec 2005)***
  - ⇒ ***Cumulative price increase of 67%***
  - ⇒ ***Total return of 80% including net dividends received***

***Build the basis for our share price to outperform the STI over the next 5 years***

# Our Achievements – Overseas Expansion



## OUR ACTION PLANS

1. First aggressively exploit our strong distribution capability in Malaysia and Singapore to become even more entrenched as a community bank

## 3-YEAR ACHIEVEMENTS

- ✓ OCBC Malaysia's net profit rose 115% to RM415m in 2005
  - ✓ Malaysia home loans increased 66%
  - ✓ Credit card base in Malaysia increased 250%
  - ✓ Joined MEPS Interbank GIRO in 2005 to expand reach to customers
  - ✓ Leveraged GE agents to distribute credit cards and home loans in Malaysia. 1/3 of new cards issued in Malaysia were attributed to the GE collaboration
- 
2. Experiment with basic customer/ product solutions in ASEAN & China
    - ✓ Opened Islamic Banking offshore branch in Brunei in Jul 05
    - ✓ Ongoing pilot of organic consumer business in China, targeting wealth management services to mass affluent segment

## OUR ACTION PLANS

3. **Transfer successful customer/ product solutions from Singapore and Malaysia to other ASEAN countries and China within 24 months**

## 3-YEAR ACHIEVEMENTS

-  • **Launched joint initiatives with NISP:**
  - ⇒ ATM network link-up in April 2005
  - ⇒ Corporate internet banking platform, Velocity@NISP, in June 2005
  - ⇒ Distribution of GE key man insurance products to SME customers in Aug 2005
-  • **Actively engaged Bank NISP to drive capability transfer in:**
  - ⇒ Risk management, process reengineering, consumer distribution capability and product capability – credit cards, wealth management, cash, trade, treasury

***Become solidly established in one other country and be poised to add another country in 3 years***



***Increased stake in Bank NISP to 72% in 2005; 12.2% investment in Ningbo Commercial Bank (pending completion by mid 2006)***

# Our Achievements – Awards received (2003 to 2005)

**Asia Pacific Retail Bank of the Year 2004**  
**South-East Asia Retail Bank of the Year 2004**



**Winner of 5 awards in the S & P Investment Fund Awards 2004**

**Best Bank in Singapore 2004**  
**Best Trade Finance Bank Singapore 2005**



**Country Award for Best Bond House 2005 (Singapore)**



**Winner of the Intelligent Enterprise Asia Awards 2004**



**Winner - Operational Efficiency Category 2004 and 2005**



**Most Transparent Company (Finance)**



**Winner of 6 awards in The Edge-Lipper Singapore Funds Awards 2006**



**Best Bottom Line IT**

**Runner-up Customer Service Category 2005**



**Best Domestic Bank in Singapore 2003**



**IFR Asia – Singapore Loan House of the Year**



**Best Practice ATM Deployment Award in the Financial Institution Category 2004**



**Best Corporate/Institutional Internet Bank in Singapore - 2003**

**Best Online Cash Management Bank in Asia - 2003**

**Best Corporate/Institutional Internet Bank in Malaysia - 2005**



**Best Domestic Commercial Bank in Singapore 2003**



- **Key targets were met, notably in overseas expansion, Malaysia growth, capital management, improving shareholder value**
- **Build-and-transfer approach well received by overseas partners**
- **Balanced business scorecard delivering overall performance improvements**
- **New Horizons laid a strong foundation for OCBC's long term growth**

- **New Horizons 3-year Report Card**

- **Market Scan**

- **New Horizons II – Embedding OCBC in the Region**

- **Conclusion**

Market Scan in 2003	Market Scan in 2006
<ul style="list-style-type: none"> <li>• Singapore market is mature</li> </ul>	<ul style="list-style-type: none"> <li>• Unchanged; competition intensifying</li> </ul>
<ul style="list-style-type: none"> <li>• 1997 crisis receding regionally</li> </ul>	<ul style="list-style-type: none"> <li>• Regional business and consumer confidence stronger now</li> </ul>
<ul style="list-style-type: none"> <li>• Opportunities in Malaysia to be exploited</li> </ul>	<ul style="list-style-type: none"> <li>• Good growth momentum in Malaysia; opportunities there still significant</li> </ul>
<ul style="list-style-type: none"> <li>• Bank consolidation – Singapore/Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>• Bank consolidation – Malaysia, Indonesia</li> </ul>
<ul style="list-style-type: none"> <li>• Liberalisation moving forward – WTO</li> </ul>	<ul style="list-style-type: none"> <li>• Unchanged</li> </ul>
<ul style="list-style-type: none"> <li>• Growth opportunities in ASEAN and China</li> </ul>	<ul style="list-style-type: none"> <li>• Unchanged</li> </ul>
<p style="text-align: center;"><b>Conclusion:</b> <b>Must go overseas for growth</b></p>	<p style="text-align: center;"><b>Conclusion:</b> <b>Broad market environment remains similar =&gt; no reason to change direction</b></p>

# What is Different?

- **OCBC is the largest financial institution in combined Singapore-Malaysia assets (\$120 bn) after GEH became a subsidiary**
- **Established Indonesia as our 3<sup>rd</sup> major market (Bank NISP); established strategic partnership in China (Ningbo Commercial Bank)**
- **Formed Lion Capital Management, one of the largest asset management companies in Southeast Asia**
- **OCBC is in a stronger position now to take advantage of growth opportunities in Southeast Asia and China**
  - Cross border management experience enhanced
  - Better insights of customer needs and behaviour through segmentation and surveys
  - Broader product suite and enhanced product innovation
  - Credit processes and infrastructure in place
  - Instituted Quality culture through process improvements and focus on productivity
  - Invested in employee training, improved internal mobility leading to strengthening engagement scores

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## (1) Focused Overseas Expansion

- Shift emphasis from adding more country flags to deepening market penetration in Malaysia, Indonesia, China
- Selectively explore opportunities to establish strategic partnerships in Indochina
- Grow market share in the consumer and SME segments in Indonesia and China by transferring successful business models and product solutions to existing branches and alliances in the two countries

## **(2) Maintain use of Balanced Business Scorecard**

- Continue with our disciplined approach to measure improvement in: customers, products, risk management, productivity, people, shareholder value
- Focus on strengthening our market position in Singapore and taking share in the consumer and SME segments in Malaysia
- Continue to enhance our customer and product capabilities in Singapore/Malaysia with a view to rolling out successful business models and product solutions to other overseas markets over time
- Retain EPS growth and improving ROE as our key financial objectives

## 1. Focused Overseas Expansion

- Indonesia
- China

## 2. Maintain Use of Balanced Business Scorecard

- Customers
- Products
- Risk management
- Productivity
- People
- Shareholder value



## In Indonesia, we will...

- Work with Bank NISP to become a top-tier nationwide bank focused on SMEs and consumers
- Expand our geographic branch coverage
- Broaden Bank NISP's consumer and SME product suite, including wealth management, credit cards, cash management and trade services, to drive customer acquisition
- Work closely with GE Indonesia to build their life business through bancassurance and agency models

**..... build Indonesia as a major growth engine after Singapore and Malaysia**

## In China, we will...

- Leverage on strategic partnerships in China as part of strategy to grow our retail and SME customer franchise
- Experiment with customer and product solutions through our partners
- Continue to support GE's initiatives in life insurance in China through alliance tie-ups where possible

**..... build capabilities to take on larger opportunities should they become available with regulatory changes**

## 1. Focused Overseas Expansion

- Indonesia
- China

## 2. Maintain Use of Balanced Business Scorecard

- Customers
- Products
- Risk management
- Productivity
- People
- Shareholder value

## For Consumers, we will...

- Focus on new customer acquisitions in the Mass Consumer, Premier and Private Banking segments
- Survey customers to understand their needs and deploy these insights into our value propositions
- Leverage our Great Eastern/Lion Capital partnership to cross sell more products
- Differentiate through service excellence grounded on Quality programmes

**..... sustain our top 3 consumer bank position in the combined Singapore and Malaysia market**

## For Businesses, we will...

- Grow our current strong large corporate position
- Expand customer base and grow market share in the SME segment
- Survey customers and work towards an overall improvement in customer satisfaction as measured by survey results
- Increase cross sell and wallet share penetration of SME customers through innovative delivery methods and differentiated packaged offerings

**..... become one of the top 3 corporate banks in the combined Singapore and Malaysia market**

# OUR STRATEGY SPRINGS FROM PRODUCT STRENGTHS

## We will...

- Strive to build more “best-in-class” products
- Add to our SME cash management capabilities and enhance our trade finance services/ solutions with increasing focus on supporting our customers expanding regionally
- Strengthen our position in Singapore, Malaysia and Indonesia for investment banking products and expand our Mezzanine Capital portfolio
- Expand Lion Capital to become a globally recognised top tier Asia-based fund manager
- Be one of the top 3 banks in the combined Singapore/Malaysia market for wealth management, credit cards and unsecured lending
- Be the bank of choice for treasury instruments in selected currencies

**..... become known for product innovation by  
sustaining new product revenues above 15%**

## **We will...**

- Execute our Basel II implementation plan in line with regulatory guidelines
- Manage our balance sheet proactively to deliver enhanced risk-return with portfolio re-balancing and hedging
- Build a robust management attestation process to provide 'positive assurance' of the effectiveness of internal control systems
- Maintain our current strong credit ratings

**..... maintain our position as one of the highest rated banks in Asia Pacific**

# OUR STRATEGY REQUIRES ONGOING PRODUCTIVITY GAINS

## **We will...**

- Continue to drive for productivity gains and unit cost reduction while enhancing service quality
- Leverage our cross-border processing hubs in Singapore and Malaysia to deliver further efficiency gains
- Continue to re-engineer cross-functional processes in pursuit of Six Sigma Quality Excellence

**..... be an efficient, low cost provider**



## We will...

- Build people resources with a focus on diversity, cross-border management skill sets and competencies to support our overseas expansion efforts
- Continue to develop talent within OCBC through evolving training and career development programmes
- Sustain minimum of 5 man-days of training on average for all employees
- Maintain share ownership schemes to enable all our employees to easily own OCBC shares

**..... continue to improve employee satisfaction  
so as to be increasingly recognised as a  
regional employer of choice**

## **We will...**

- Grow revenues faster than expenses
- Deliver 10% EPS growth p.a.
- Achieve and sustain ROE of above 12%

**..... be a high performance bank**

## We will...

- Periodically review our target minimum dividend payout of 35% of core earnings for possible increase
- Continue to divest non-core assets at the right time and invest the gains in core financial services growth opportunities
- Continue policy of returning any excess capital to shareholders via share buyback programmes
- Maintain Tier 1 capital and total capital at a comfortable cushion above regulatory minimums
- Raise alternative Tier 1/Tier 2 capital as necessary to meet additional capital needs

**..... build the basis for our share price to  
outperform the STI**

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## **New Horizons II is about...**

- **Continuing our international growth strategy**
- **Shifting emphasis from adding more country flags to deepening market penetration in Malaysia, Indonesia, China**
- **Continuing to work on improving overall performance through balanced business scorecard**
- **Maintaining our focus on delivering shareholder value**