

## Corporate Governance

OCBC Bank is fully committed to integrity and fair dealing in all its activities, and upholds the highest standards of corporate governance. It adopts corporate governance practices in conformity with the Code of Corporate Governance (the “Code”) adopted by the Singapore Exchange Securities Trading Limited (“SGX-ST”) and with guidelines issued by the Monetary Authority of Singapore.

### BOARD OF DIRECTORS

#### ***Board Composition and Independence***

The Board comprises 12 Directors, of whom 10 are non-executive Directors. The non-executive Directors are: Mr Michael Wong Pakshong, Mr Giam Chin Toon, Mr Lee Seng Wee, Dr Lee Tih Shih, Tan Sri Dato Nasruddin Bin Bahari, Professor Neo Boon Siong, Dr Tsao Yuan (also known as Dr Lee Tsao Yuan), Col (Ret) David Wong, Mr Wong Nang Jang and Mr Patrick Yeoh.

The executive Directors on the Board are Dr Cheong Choong Kong, Chairman of the Board, and Mr David Conner, Chief Executive Officer (“CEO”).

The roles of the Chairman and the CEO have been separated since 1998, which is consistent with the principle of the Code to institute an appropriate balance of power and authority. The Chairman’s role in the Board includes scheduling meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Company’s operations; preparing meeting agenda in consultation with the CEO; exercising control over quality, quantity and timeliness of the flow of information between Management and the Board; and assisting in ensuring compliance with guidelines on corporate governance. These pertain to only board proceedings and is not a comprehensive list of all the duties and responsibilities of the Chairman.

Based on the Guidance Notes of the Code, 7 non-executive Directors – namely, Mr Michael Wong Pakshong, Mr Giam Chin Toon, Tan Sri Dato Nasruddin Bin Bahari, Professor Neo Boon Siong, Dr Tsao Yuan, Col (Ret) David Wong and Mr Patrick Yeoh – are considered as independent Directors. Although Mr Lee Seng Wee and Mr Wong Nang Jang have relinquished their posts as executive Directors, they are considered non-independent under the Code. They were employed by the Bank until 30 June 2003 and 4 June 2002, respectively. Dr Lee Tih Shih is also considered non-independent under the Code as he is the son of Mr Lee Seng Wee. With 7 out of the 12

Directors deemed to be independent, the Board has a majority of independent directors.

The members of the Board as a group provide core competencies to ensure the effectiveness of the Board. The competencies include banking, insurance, accounting, finance, legal, strategic ability, business acumen, management experience and depth, understanding of industry and customer, familiarity with regulatory requirements and knowledge of risk analyses and control. Details of the Directors’ professional qualifications and background can be found on pages 162 to 169.

As a principle of good corporate governance, all Directors are subject to re-nomination and re-election at regular intervals and at least every three years. The Bank’s Articles of Association also provide for the retirement of Directors by rotation and, under MAS Notice to Banks 622, all appointment and re-appointment of Directors have to be approved by the Monetary Authority of Singapore.

The Directors have multiple board representations, but the Nominating Committee is satisfied that the Directors have been able to devote adequate time and attention to fulfil their duties as Directors of the Bank, in addition to their multiple board representations.

Given the size of the Bank, its business complexity and the number of board committees, the Board considered that an appropriate Board size is between 12 and 14 members. The actual Board size currently is 12.

#### ***Board Conduct and Responsibilities***

The Board is elected by the shareholders to supervise the management of the business and affairs of the Bank. The prime stewardship responsibility of the Board is to ensure the viability of the Bank and to ensure that it is managed in the best interest of the shareholders as a whole while taking into account the interests of other stakeholders.

Broadly, the responsibilities of the Board include but are not limited to the following:

- reviewing and approving overall business strategy developed and recommended by Management;
- ensuring that decisions and investments are consistent with long-term strategic goals;
- ensuring the Bank is operated to preserve its

financial integrity and in accordance with policies approved by the Board;

- providing oversight in ensuring that the Bank's risk appetite and activities are consistent with the strategic intent, operating environment, effective internal controls, capital sufficiency and regulatory standards;
- overseeing, through the Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure controls and procedures and internal controls; and through the Risk Committee the quality of the risk management processes and systems; and
- reviewing any transaction for the acquisition or disposal of assets that is material to the Bank.

In 2004, the Board and its Committees held a total of 38 meetings. Prior to each meeting, Members are provided with timely and complete information to enable Members to fulfill their responsibilities. Information provided includes background information on matters to be addressed by the Board, copies of disclosure documents, monthly internal financial statements, risk management reports, budgets, forecasts, and reports of variances from budgets and forecasts.

The Board and its Committees have separate and independent access to the Bank's senior management and to the company secretary. The Directors, in addition, could take independent professional advice from legal firms at the Bank's expense. The role of the company secretary is defined. He attends all board meetings and ensures that board procedures and applicable regulations are complied with.

The Directors receive appropriate structured training. This includes introductory information, briefings by senior executives on their respective areas and attendance at relevant external courses. The Board as a whole also receives briefings on relevant new laws, risk management updates and changes in accounting standards.

#### **Board Performance**

The Board has implemented an annual performance evaluation process to assess the effectiveness of the Board, Board Committees and each Director's contribution. The purpose of the evaluation process is to increase the overall effectiveness of the Board. An independent consultant facilitates this process.

The Directors participate in the evaluation. Each Director evaluates the performance of the Board and Board Committees and conducts a self-assessment and a peer-assessment of the other Directors. The assessments are made against pre-established criteria which are derived from the Board's charter and responsibilities. The results of the evaluation are used constructively by the Nominating Committee to discuss improvements with the Board and to provide developmental feedback to individual Directors.

#### **BOARD COMMITTEES**

##### ***Executive Committee***

The Executive Committee comprises Dr Cheong Choong Kong (Chairman), Mr David Conner, Mr Lee Seng Wee, Mr Wong Nang Jang and Mr Patrick Yeoh. The Committee has written terms of reference that describe the responsibilities of its members.

The Executive Committee oversees the management of the business and affairs of the Bank and the Group, within the parameters delegated by the Board. It reviews the Bank's policies, principles, strategies, values, objectives and performance targets. These include investment and divestment policies, and human resource policies. It also endorses such other matters and initiates any special reviews and actions as appropriate for the prudent management of the Bank.

##### ***Nominating Committee***

The Nominating Committee comprises Mr Michael Wong Pakshong (Chairman), Dr Cheong Choong Kong, Mr Giam Chin Toon, Mr Lee Seng Wee and Col (Ret) David Wong. 3 of the 5 Committee members, Mr Wong Pakshong (the Chairman), Mr Giam and Col (Ret) Wong are independent Directors. The Committee has written terms of reference that describe the responsibilities of its members.

The Nominating Committee plays a vital role in reinforcing the principles of transparency and meritocracy at the Bank. It ensures that only the most competent individuals capable of contributing to the success of the organisation are appointed. This includes review of all nominations for the appointment, re-appointment, election or re-election of Directors of the Bank and its wholly-owned subsidiary Bank of Singapore Limited, and members of the Executive Committee, Remuneration Committee, Audit Committee and Risk Committee of the Bank. The Nominating Committee is also charged with determining annually whether or not a Director is independent, or whether the Director is capable

of carrying out the relevant duties where the Director has multiple board representations. It also reviews nominations for senior management positions in the Bank and Bank of Singapore Limited, including the CEO, Deputy President, Chief Financial Officer and senior executives of Executive Vice President rank and above. The Nominating Committee makes recommendations to the Board on all such appointments.

#### **Audit Committee**

The Audit Committee comprises Mr Michael Wong Pakshong (Chairman), Professor Neo Boon Siong and Col (Ret) David Wong, all of whom are independent Directors. All Committee members have accounting or financial management expertise and experience. The Committee has written terms of reference that describe the responsibilities of its members.

The Audit Committee performs the functions specified in the Companies Act, the Code and the SGX-ST Listing Manual. Details of the duties and responsibilities of the Audit Committee are found in the Report of the Directors on page 71 and in the "Audit Function" section of this chapter on pages 35 to 36.

#### **Remuneration Committee**

The Remuneration Committee comprises Mr Michael Wong Pakshong (Chairman), Dr Cheong Choong Kong, Mr David Conner, Tan Sri Dato Nasruddin Bin Bahari and Dr Tsao Yuan. 3 of the 5 Committee members, Mr Wong Pakshong, Tan Sri Nasruddin and Dr Tsao Yuan are independent Directors. All the Committee members are well versed with executive

compensation matters, given their extensive experience in senior corporate positions and major appointments. The Committee has written terms of reference that describe the responsibilities of its members.

The Remuneration Committee determines and recommends to the Board the remuneration and fees of non-executive Directors as well as the compensation of executive Directors. It is also empowered to review human resources management policies and the policies governing the compensation of executive officers of the Bank and its subsidiaries. In addition, it administers the various employee share ownership schemes.

#### **Risk Committee**

A Risk Committee was established on 31 August 2004 to support the Board in performing its risk oversight responsibilities. It comprises Mr Patrick Yeoh (Chairman), Dr Cheong Choong Kong, Mr David Conner, Professor Neo Boon Siong and Dr Tsao Yuan. The Committee has written terms of reference that describe the responsibilities of its members.

The Risk Committee reviews the overall risk management philosophy, guidelines and major policies for effective risk management, risk disclosure policy, risk management systems and risk capital allocation methodology. The Committee also reviews the scope, effectiveness and objectivity of Group Risk Management and the risk reports that monitor and control risk exposures.

### **DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS IN 2004**

| Name of Director      | Number of Meetings Attended in 2004 |          |                     |          |                      |          |                        |          |                 |          |                              |          |                |          |
|-----------------------|-------------------------------------|----------|---------------------|----------|----------------------|----------|------------------------|----------|-----------------|----------|------------------------------|----------|----------------|----------|
|                       | Board                               |          | Executive Committee |          | Nominating Committee |          | Remuneration Committee |          | Audit Committee |          | Audit and Special Committee* |          | Risk Committee |          |
|                       | Held                                | Attended | Held                | Attended | Held                 | Attended | Held                   | Attended | Held            | Attended | Held                         | Attended | Held           | Attended |
| Cheong Choong Kong    | 9                                   | 9        | 10                  | 10       | 6                    | 6        | 3                      | 3        | —               | —        | —                            | —        | 1              | 1        |
| Michael Wong Pakshong | 9                                   | 9        | —                   | —        | 6                    | 6        | 3                      | 3        | 7               | 7        | —                            | —        | —              | —        |
| David Conner          | 9                                   | 9        | 10                  | 10       | —                    | —        | 3                      | 3        | —               | —        | —                            | —        | 1              | 1        |
| Fong Weng Phak        | 9                                   | 7        | —                   | —        | 6                    | 5        | —                      | —        | 7               | 7        | —                            | —        | —              | —        |
| Lee Seng Wee          | 9                                   | 9        | 10                  | 10       | 6                    | 6        | —                      | —        | —               | —        | —                            | —        | —              | —        |
| Lee Tih Shih          | 9                                   | 8        | —                   | —        | —                    | —        | —                      | —        | —               | —        | —                            | —        | —              | —        |
| Nasruddin Bin Bahari  | 9                                   | 8        | —                   | —        | —                    | —        | 3                      | 3        | —               | —        | —                            | —        | —              | —        |
| Tsao Yuan             | 9                                   | 9        | —                   | —        | —                    | —        | 3                      | 3        | —               | —        | 2                            | 2        | 1              | 1        |
| David Wong            | 9                                   | 9        | —                   | —        | 6                    | 5        | —                      | —        | 7               | 6        | 2                            | 2        | —              | —        |
| Wong Nang Jang        | 9                                   | 9        | 10                  | 9        | —                    | —        | —                      | —        | —               | —        | —                            | —        | —              | —        |
| Patrick Yeoh          | 9                                   | 9        | 10                  | 10       | —                    | —        | —                      | —        | —               | —        | 2                            | 1        | 1              | —        |

\* Joint-Meetings of Audit Committee and Special Committee. The Special Committee was constituted solely for the purpose of assisting, advising and co-ordinating with the Audit Committee in the discharge of its responsibilities in connection with the pre-conditional voluntary offer by the Bank for Great Eastern Holdings Limited and the selective capital reduction of the Bank. The Special Committee comprised selected Directors who are not in the position of conflict of interest in the transactions.

The Bank's Articles of Association provide for Directors to participate in Board and Board Committee meetings by means of conference telephone, video conferencing or audio visual equipment.

## AUDIT FUNCTION

### **Audit Committee**

The Board approved the terms of reference of the Audit Committee. The Committee may meet at any time but no less than four times a year with the internal auditors and external auditors. It has full access to, and co-operation from management, and has the discretion to invite any Director and executive officer to attend its meetings. It has explicit authority to investigate any matter within its terms of reference.

In addition to the review of the Group Financial Statements, the Audit Committee reviews and evaluates with the external auditors and internal auditors, the adequacy of the system of internal and accounting controls, risk management and compliance. The reviews include the scope and results of the audits, the cost effectiveness of the audits, and the independence and objectivity of the external auditors. Where the external auditors provide non-audit services to the Bank, the Committee keeps the nature, extent and costs of such services under review. This is to balance the objectivity of the external auditors against their ability to provide value for money services.

It meets at least once a year with the external auditors and internal auditors in separate sessions and without the presence of management, to consider any matters which might be raised privately. In addition, the Chairman of the Audit Committee meets the internal auditors on a regular basis to discuss the work undertaken, key findings and any other significant matters arising from the Group's operations. Formal reports are sent to the Audit Committee on a quarterly basis. The Board is updated on these reports.

The Audit Committee has received the requisite disclosures from the external auditors evidencing the latter's independence. It is satisfied that the financial, professional and business relationships between the Group and the external auditors are compatible with maintaining the independence of the external auditors.

In respect of the 2004 financial year, the Audit Committee

- (a) has reviewed the audited financial statements with management, including a discussion of the quality of the accounting principles applied and significant judgements affecting the financial statements;
- (b) has discussed with the external auditors the latter's judgement of the quality of the above principles and judgements;
- (c) has discussed among its own members, without the presence of management or the external auditors, the information disclosed in (a) and (b) above; and
- (d) believes that the financial statements are fairly presented in conformity with the relevant Singapore accounting standards in all material aspects, based on its review and discussions with management and the external auditors.

### **Internal Audit Function**

The Audit Committee approved the terms of reference of internal audit (Group Audit). In line with leading practice, Group Audit's mission statement and charter requires it to provide independent and reasonable, but not absolute, assurance that the Banking Group's system of risk management, control, and governance processes, as designed and implemented by senior management, are adequate and effective. Group Audit reports on the adequacy of the systems of control to the Audit Committee and management, but does not form any part of those systems of control. Group Audit is also expected to meet or exceed the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors.

Group Audit has implemented risk-based audit processes. Audit work is prioritised and scoped according to an assessment of potential exposure to risks. This includes not only financial risks, but operational and strategic risks as well. Computerised audit systems have been adopted so that the audit process is now automated and typically paperless. Group Audit also works closely with Group Risk Management to help review risk management processes as a whole.

The work undertaken by Group Audit includes the audit of the Group's system of internal control over its key operations (including overseas branches), review of security and access controls for the Group's key computer systems, review of control processes within and around new products and

system enhancements, and review of controls over the monitoring of market and credit risks. Group Audit also actively participates in major new systems developments and special projects, to help evaluate risk exposures and to help ensure that proposed compensating internal controls are adequately evaluated on a timely basis.

The Audit Committee is responsible for the adequacy of the internal audit function, its resources and its standing. Group Audit reports functionally to the Audit Committee and administratively to the CEO. Mr Chong Meng is the Head of Group Audit. He has more than 3 decades of working experience covering risk management and control, marketing, client-relationship, process engineering and general management. Currently, Group Audit has a team of some 109 staff in Singapore and Malaysia. The division is organised into departments that are aligned with the structure of the Bank.

#### **Internal Controls**

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls maintained by the Bank's management and that was in place throughout the financial year and up to and as of the date of this report, is adequate to meet the needs of the company in its current business environment.

The system of internal control provides reasonable, but not absolute, assurance that the company will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal control could provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision making, human error, losses, fraud or other irregularities.

### **REMUNERATION POLICY**

#### **Employees' Remuneration**

The objective of the Bank's remuneration policy is to attract, motivate, reward and retain quality staff.

The total compensation package for employees comprises basic salary, fixed bonus, variable performance bonus, allowances, deferred share awards and share options for eligible executives, as well as benefits. In determining the composition of the package, the nature of the role

performed and market practice are taken into consideration. To ensure that its remuneration package is competitive, the Bank regularly reviews its base salary ranges and benefits package based on market data provided by recognised surveys of comparative groups in the financial sector.

For executives, the Bank adopts a performance-driven approach to compensation, with rewards linked to individual, team and corporate performance. Executives' compensation is reviewed each year based on information from market surveys and advice from reputable management consultants. The compensation for senior executives is reviewed by the Remuneration Committee.

The remuneration practices for staff in bargainable positions are reviewed at least once every three years and are established through negotiation with the banks' unions.

#### **Directors' Remuneration**

The Remuneration Committee recommends the remuneration for executive Directors and the fees for non-executive Directors of the Bank. The fees for non-executive Directors are subject to shareholders' approval at the AGM.

#### **Compensation of Non-Executive Directors**

The Remuneration Committee has considered market practices for non-executive director compensation and on its recommendation, the Board has decided to maintain the following current fee structure to compute the fee for each non-executive Director:

- Annual retainer fee of S\$45,000;
- Annual committee chairperson fee of S\$20,000 for Audit Committee and S\$15,000 for other Committees; and
- Attendance fee of S\$1,200 per Board or Board Committee meeting. These attendance fees are paid to non-executive Directors to recognise their commitment and time spent in attending each meeting.

In addition, on the Remuneration Committee's recommendation, the Board is proposing a grant of 2,000 new OCBC shares to each non-executive Director who has served a full annual term with the Board. This additional remuneration in shares will align the interest of non-executive Directors with the interest of shareholders. The resolution proposing these share grants will be presented to shareholders at the AGM/EGM on 30 March 2005.

Under the OCBC Share Option Scheme 2001, the Remuneration Committee also has the discretion to grant share options to non-executive Directors in recognition of their contributions. Executive Directors are not eligible to participate in any part of the compensation for non-executive Directors.

#### Compensation of Executive Directors

The compensation plan for the executive Directors is formulated and reviewed by the Remuneration Committee to ensure that it is market competitive and that the rewards are commensurate with their contributions. The compensation package comprises basic salary, benefits in kind, performance bonus, incentive bonus, share options, share awards and compensation in the event of early termination where service contracts are applicable. Performance and incentive bonuses relate directly to the financial performance of the Group and the contributions of the individual executive Director. Under the OCBC Executives' Share Option Scheme 1994 and OCBC Share Option Scheme 2001, the guidelines on granting of share options for executive Directors are similar to those for the executives of the Bank.

#### Remuneration of Directors' Immediate Family

During the financial year 2004, none of the Directors had immediate family members who were employees of the Bank and whose personal annual remuneration exceeded S\$150,000.

#### Remuneration of Top 5 Key Executives in 2004

The Code of Corporate Governance suggests the disclosure of the remuneration of the Bank's top five key executives. The Board of Directors considered this matter carefully and has decided against such disclosure for the time being. Given the wage disparities in the industry and the likely competitive pressures resulting from such disclosures, it was felt that the disadvantages of disclosure will outweigh the benefits.

#### SHARE OPTION SCHEMES

##### OCBC Executives' Share Option Scheme 1994

The Bank has a share option plan available for executives of the Bank and OCBC Bank (Malaysia) Berhad, viz. OCBC Executives' Share Option Scheme 1994 (the "1994 Scheme"). The objective is to enable officers of the rank of Assistant Manager and above as well as executive Directors of the Bank to participate in the equity of the Bank.

#### DIRECTOR'S REMUNERATION IN 2004

|                                   | Remuneration band (\$) | Salary and fees(a) (%) | Performance - based bonuses(b) (%) | Other benefits(c) (%) | Value of share options granted(d) (%) | Value of deferred shares granted(e) (%) | Value of share award(e) (%) | Total Remuneration (%) | Options Granted (No.) | Exercise Price (\$) | Exercise Period          |
|-----------------------------------|------------------------|------------------------|------------------------------------|-----------------------|---------------------------------------|-----------------------------------------|-----------------------------|------------------------|-----------------------|---------------------|--------------------------|
| <b>Non-Executive Directors</b>    |                        |                        |                                    |                       |                                       |                                         |                             |                        |                       |                     |                          |
| Mr Michael Wong Pakshong          | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| Datuk Fong Weng Phak              | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| Mr Lee Seng Wee                   | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| Dr Lee Tih Shih                   | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| Tan Sri Dato Nasruddin Bin Bahari | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| Dr Tsao Yuan                      | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| Col (Ret) David Wong              | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| Mr Wong Nang Jang                 | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| Mr Patrick Yeoh                   | Below 250,000          | 100                    | —                                  | —                     | —                                     | —                                       | —                           | 100                    | —                     | —                   | —                        |
| <b>Executive Directors</b>        |                        |                        |                                    |                       |                                       |                                         |                             |                        |                       |                     |                          |
| Dr Cheong Choong Kong             | 1,250,000 to 1,499,999 | 63.0                   | 18.5                               | 2.5                   | 12.5                                  | 3.5                                     | 0.0                         | 100                    | 48,000                | 12.34               | 16/03/2005 to 14/03/2014 |
| Mr David Conner                   | 4,500,000 to 4,749,999 | 23.8                   | 33.9                               | 3.6                   | 23.2                                  | 9.4                                     | 6.1                         | 100                    | 330,000               | 12.34               | 16/03/2005 to 14/03/2014 |

(a) For non-executive Directors, refers to Directors' fees. For executive Directors, comprises basic salary, allowances and bonuses.

(b) Represents performance-based bonuses paid during the year.

(c) Represents non-cash component and comprises club and car benefits and employer's contributions to CPF.

(d) Share options were valued as at the date of grant, using the Roll-Geske Model for American call options.

(e) Share grants and awards were valued at the actual price of shares purchased from the open market.

This 1994 Scheme, which has been replaced by OCBC Share Option Scheme 2001, was terminated on 3 August 2001. However, this will not affect the rights of the holders of outstanding options granted under the 1994 Scheme to subscribe for shares.

#### **OCBC Share Option Scheme 2001**

A new share option plan, OCBC Share Option Scheme 2001 (the "2001 Scheme"), was approved in 2001.

The 2001 Scheme seeks to inculcate in all participants a stronger and more lasting sense of identification with the OCBC Group, as well as to incentivise participants to achieve higher standards of performance. Group executives comprising any employee of the OCBC Group holding the rank or equivalent rank of Assistant Manager and above and any Group Executive Director selected by the Remuneration Committee, as well as non-executive Directors of the Group, are eligible to participate in the 2001 Scheme.

The cumulative total number of shares to be issued by the Bank in respect of options granted under the 2001 Scheme cannot exceed 10% of the Bank's issued share capital.

The number of share options to be offered each year is determined by the Remuneration Committee which comprises Directors of the Bank who are duly authorised and appointed by the Board of Directors to administer the 2001 Scheme. The Committee takes into account criteria such as the individual's rank, job performance, years of service, potential for future development and his/her contribution to the success and development of the Group.

The subscription price for each share in respect of which the option is exercisable shall be determined by the Remuneration Committee to be a price equal to the average of the last dealt prices of the stock for the five consecutive trading days immediately prior to the offering date. No options were granted at a discount since the commencement of the 2001 Scheme.

The validity period of the options is subject to prevailing legislation applicable on the date of grant. Based on current legislation, options granted to Group Executives are exercisable up to 10 years, while options granted to non-executive Directors are exercisable up to 5 years. The options may be exercised after the first anniversary of the

date of the grant, in accordance with a vesting schedule to be determined by the Remuneration Committee on the date of the grant of the respective options. The Committee has adopted the following vesting schedule:

| Vesting Schedule                                                                         | Percentage of shares over which an option is exercisable |
|------------------------------------------------------------------------------------------|----------------------------------------------------------|
| On or before the first anniversary of the date of grant                                  | Nil                                                      |
| After the first anniversary but on or before the second anniversary of the date of grant | 33%                                                      |
| After the second anniversary but on or before the third anniversary of the date of grant | 33%                                                      |
| After the third anniversary but before the date of expiry of the exercise period         | 34%                                                      |

These options will lapse immediately on the termination of employment and appointment, except in the event of retirement, redundancy, death or where approved by the Remuneration Committee, in which case the Committee may allow the options to be retained and exercisable within the relevant option periods or such option periods as may be determined by the Remuneration Committee.

#### **OCBC Deferred Share Plan**

The OCBC Deferred Share Plan aims to increase the performance-orientation and retention factor in compensation packages of executives, and foster an ownership culture within the organisation. Group executives holding the rank or equivalent rank of Senior Officer and above, and any Group Executive Director selected by the Remuneration Committee are eligible to participate in the Plan. In 2004, the participants are executives of the Bank, selected overseas locations and subsidiaries.

The share awards are granted annually to eligible executives, the value of which is presently equal to 25% of their total variable performance bonus for the year. The OCBC shares granted are acquired from the market in accordance with guidelines established under the Plan. The share awards will vest with the executives at the end of 3 years. Prior to



the vesting date, the executives will not be accorded voting rights and dividends paid on the shares.

The awards will lapse immediately on the termination of employment and appointment, except in the event of retirement, redundancy, death, or where approved by the Remuneration Committee, in which case the Committee may allow the awards to be retained and vested within the relevant vesting periods or such periods as may be determined by the Remuneration Committee.

During the financial year, an aggregate of 468,954 ordinary shares of par value S\$1.00 each were granted to eligible executives of the Group pursuant to the OCBC Deferred Share Plan.

#### ***OCBC Employee Share Purchase Plan***

The OCBC Employee Share Purchase Plan (“ESPP”) was implemented in 2004 for all employees of the Group, including Executive Directors. It was implemented to inculcate in all participants a stronger and more lasting sense of identification with the Group.

The ESPP is a saving-based share ownership plan to help employees own shares in the Bank through their monthly contributions via deductions from payroll and/or CPF funds. The employees have the option to convert the contributions to shares after 1 year or withdraw the contributions. As a further incentive to employees to enroll in the ESPP, the Bank pays interest on the amounts saved at a preferential interest rate.

The duration of offering period is 24 months and the share subscription price is fixed before the offering period based on average of the last traded prices over 5 consecutive trading days immediately preceding the price fixing date.

#### **COMMUNICATION WITH SHAREHOLDERS**

OCBC Bank recognises the importance of communicating regularly and effectively with its shareholders so that they can better understand its operations, strategies and directions. One of the key roles of the Group Corporate Communications and Investor Relations Unit is to keep the market and investors apprised of the Group’s corporate developments and financial performance through regular media releases, briefings and meetings with the media, analysts and fund managers. In addition, shareholders and

the public can access the Group’s media releases, financial results, presentation materials used at briefings and other corporate information on the Bank’s website.

Shareholders are given the opportunity to participate actively at OCBC Bank’s AGMs and EGMs, where they can ask questions and communicate their views. They are allowed to vote in person or by proxy. The Directors as well as the external auditors are present at these meetings to address any relevant queries raised by shareholders.

#### **ETHICAL STANDARDS**

The Bank has adopted the SGX-ST’s Best Practices Guide with respect to dealings in securities and has a Code on Dealings in Securities for the guidance of directors and officers.