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 Ltd ("SGX-ST") and with guidelines issued by the Monetary Authority of Singapore ("MAS"). Where practical to do so, the Bank also adopts in advance additional practices included in the revised Code of Corporate Governance 2005, the Banking (Corporate Governance) Regulations 2005 and the corporate governance guidelines issued by the MAS, which the Bank has until its Annual General Meeting in 2007 to comply with.

BOARD OF DIRECTORS

Board Composition and Independence

The Board comprises 14 Directors, of whom, 12 are non-executive Directors. A majority, that is, nine of the 14 Directors, are considered independent Directors based on the Code as well as the Banking (Corporate Governance) Regulations 2005. The independent Directors are Mr Michael Wong Pakshong, Mr Bobby Chin, Mr Giam Chin Toon, Tan Sri Dato Nasruddin Bin Bahari, Professor Neo Boon Siong, Dr Tsao Yuan, Col (Ret) David Wong, Mr Wong Nang Jang and Mr Patrick Yeoh.

Dr Cheong Choong Kong, Mr Lee Seng Wee, Dr Lee Tih Shih and Mr Pramukti Surjaudaja are considered non-independent Directors based on criteria of independence from management, business relationship and substantial shareholder. Mr David Conner is executive Director and Chief Executive Officer ("CEO") of the Bank and Mr Pramukti Surjaudaja is President Director of PT Bank NISP Tbk.

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 responsibilities, to name a few, include leading the Board to ensure its effectiveness on all aspects of its role; setting its meeting agenda; ensuring that Directors receive accurate, timely and clear information; ensuring effective communication with shareholders; encouraging constructive relations between the Board and Management; facilitating the effective contribution of non-executive Directors; ensuring constructive relations between the executive Director and non-executive Directors; and, promoting high standards of corporate governance.

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 196 to 207.

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 fulfill 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 14.

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 the following:

- reviewing and approving overall business strategy, as well as organisation structure, 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;
- reviewing any transaction for the acquisition or disposal of assets that is material to the Bank;
- ensuring that the necessary human resources are in place for the Bank to meet its objectives, as well as appointing and removing management;
- reviewing management performance and ensuring that management formulates policies and processes to provide fair practices and high standards of business conduct by staff;
- setting corporate values and standards, which emphasize integrity, honesty and proper conduct at all times, with respect to internal dealings and external transactions, including situations where there are potential conflicts of interest;
- providing a balanced and understandable assessment of the Bank's performance, position and prospects, and this extends to interim and other price sensitive public reports, and reports to regulators;
- ensuring that obligations to shareholders and others are understood and met; and
- maintaining records of all meetings of the Board and Board Committees, in particular records of discussion on key deliberations and decisions taken.

The non-executive Directors on the Board constructively challenge and help develop proposals on strategy, and review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They meet during the year, without the presence of management, to discuss the effectiveness of management.

In 2005, the Board and its Committees held a total of 42 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. Under the direction of the Chairman, he ensures good information flows within the Board and its committees and between senior management and non-executive Directors, as well as facilitates orientation of new Directors and professional development of Directors, as required. The appointment and removal of the company secretary is considered to be a matter for the Board as a whole.

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, carried out by the Nominating Committee, 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. The Chairman acts on the results of the evaluation, and if appropriate, proposes new Directors or seeks the resignation of Directors, in consultation with the Nominating Committee.

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. 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. A majority of the Committee members, that is, Mr Wong Pakshong (the Chairman), Mr Giam and Col (Ret) Wong, are independent Directors based on the Banking (Corporate Governance) Regulations 2005. 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 Ltd, 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 Ltd, 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), Mr Bobby Chin, Professor Neo Boon Siong and Col (Ret) David Wong, all of whom are independent Directors based on the Banking (Corporate Governance) Regulations 2005. 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, the SGX-ST Listing Manual, and the MAS' corporate governance guidelines. Details of the duties and responsibilities of the Audit Committee are found in the Report of the Directors on page 70 and in the "Audit Function" section of this chapter on pages 40 to 41.

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. A majority of the Committee members, that is, Mr Wong Pakshong, Tan Sri Nasruddin and Dr Tsao Yuan, are independent Directors based on the Banking (Corporate Governance) Regulations 2005. 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 the human resources management policies and the policies governing the compensation of executive officers of the Bank and its subsidiaries, as well as the remuneration of senior executives. In addition, it administers the various employee share ownership schemes. The Remuneration Committee, if necessary, will seek expert advice from outside the Bank on the remuneration of Directors.

Risk Committee

The Risk Committee, which supports the Board in performing its risk oversight responsibilities, 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 2005

	Number of Meetings Attended in 2005											
Name of Director	Board		Executive Committee		Nominating Committee		Remuneration Committee		Audit Committee		Risk Committee	
	Held[1/]	Attended	Held[1/]	Attended	Held[1/]	Attended	Held[1/]	Attended	Held[1/]	Attended	Held[1/]	Attended
Cheong Choong Kong	9	9	10	10	8	8	2	2	–	–	5	5
Michael Wong Pakshong	9	9	–	–	8	8	2	2	7	7	–	–
Bobby Chin [2/]	2	2	–	–	–	–	–	–	1	1	–	–
David Conner	9	9	10	10	–	–	2	2	–	–	5	5
Giam Chin Toon [3/]	9	9	–	–	6	6	–	–	–	–	–	–
Lee Seng Wee	9	9	10	10	8	8	–	–	–	–	–	–
Lee Tih Shih	9	8	–	–	–	–	–	–	–	–	–	–
Nasruddin Bin Bahari	9	9	–	–	–	–	2	2	–	–	–	–
Neo Boon Siong [4/]	9	8	–	–	–	–	–	–	6	6	4	3
Pramukti Surjaudaja [5/]	4	3	–	–	–	–	–	–	–	–	–	–
Tsao Yuan	9	9	–	–	–	–	2	2	–	–	5	5
David Wong	9	9	–	–	8	8	–	–	7	7	–	–
Wong Nang Jang	9	8	10	10	–	–	–	–	–	–	–	–
Patrick Yeoh	9	9	10	7	–	–	–	–	–	–	5	5

Notes:

1/ Reflects the number of meetings held during the time the Director held office. Unscheduled meetings held are as follows: Two Executive Committee meetings, five Nominating Committee meetings, two Audit Committee meetings and one Risk Committee meeting.

2/ Appointed to the Board on 1 October 2005 and Audit Committee on 12 October 2005.

3/ Appointed to the Board on 1 January 2005 and Nominating Committee on 17 February 2005.

4/ Appointed to the Board on 1 January 2005 and Audit and Risk Committees on 26 January 2005.

5/ Appointed to the Board on 1 June 2005.

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 financial controls, operational and compliance controls, and risk management policies and systems. It reviews 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. The Audit Committee also reviews significant financial reporting issues and judgements to ensure the integrity of the financial statements, announcements relating to financial performance, and arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, and have the concerns independently investigated and followed-up.

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 2005 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 approves the terms of reference of internal audit (Group Audit) and reviews the effectiveness of the internal audit function. 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 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. It also ensures that the internal controls result in prompt and accurate recording of transactions and proper safeguarding of assets, and that the Bank complies with laws and regulations, adheres to established policies and takes appropriate steps to address control deficiencies.

The Audit Committee is responsible for the adequacy of the internal audit function, its resources and its standing, and ensures that processes are in place for recommendations raised in internal audit reports to be dealt with in a timely manner and outstanding recommendations are closely monitored. Group Audit reports functionally to the Audit Committee and administratively to the CEO, and has unfettered access to the Audit Committee, Board and senior Management, as well as the right to seek information and explanations. Currently, Group Audit has a team of some 121 staff in Singapore and Malaysia. The division is organised into departments that are aligned with the structure of the Bank. The Audit Committee approves the appointment of the Head of Group Audit.

Internal Controls

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls, including financial, operational and compliance controls and risk management systems, 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 Board ensures that the remuneration policies are in line with the strategic objectives and corporate values of the Bank, and do not give rise to conflicts between the objectives of the Bank and the interests of individual Directors and key executives.

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 non-executive Directors of the Bank. The remuneration for non-executive Directors is 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 adopt the following 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;
- Annual committee member fee of S$10,000 for Audit Committee and S$7,500 for other Committees (committee chairpersons are not awarded these fees); 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.

The previous year, shareholders approved the grant of 2,000 remuneration shares to each non-executive Director who had served a full annual term with the Board. The remuneration shares align the interest of non-executive Directors with the interest of shareholders. At the Remuneration Committee's recommendation, the Board has decided to propose a grant of 4,800 new ordinary shares to each non-executive Director who has served a full annual term in 2005 with the Board. The 4,800 ordinary shares for each non-executive Director is equivalent to the previous 2,000 ordinary shares granted, adjusted by a factor of 1.2 (fractional entitlements disregarded) for the rights issue and a factor of 2 (fractional entitlements disregarded) for the stock split conducted in 2005. The resolution proposing these share grants will be presented to shareholders at the AGM/EGM on 20 April 2006.

The Chairman and CEO are not eligible to receive the Directors' fees and remuneration shares.

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.

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

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 2005

The Code 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.

DIRECTOR'S REMUNERATION IN 2005

Name	Remuneration Band (S$)	Salary and Fees (%)	Performance -based Bonuses (%)	Other Benefits [a] (%)	Value of Share Options Granted [b] (%)	Value of Deferred Shares/ Share Awards Granted [c] (%)	Value of Remune-ration Shares Awarded [d] (%)	Total Remune-ration (%)	Options Granted [e] (No.)	Exercise Price [e] (S$)	Exercise Period
Michael Wong Pakshong	below 250,000	79.9	–	–	–	–	20.1	100	–	–	–
Bobby Chin	below 250,000	100.0	–	–	–	–	–	100	–	–	–
Giam Chin Toon	below 250,000	69.1	–	–	–	–	30.9	100	–	–	–
Lee Seng Wee	below 250,000	74.7	–	–	–	–	25.3	100	–	–	–
Lee Tih Shih	below 250,000	63.9	–	–	–	–	36.1	100	–	–	–
Nasruddin Bin Bahari	below 250,000	68.2	–	–	–	–	31.8	100	–	–	–
Neo Boon Siong	below 250,000	72.8	–	–	–	–	27.2	100	–	–	–
Pramukti Surjaudaja	below 250,000	100.0	–	–	–	–	–	100	–	–	–
Tsao Yuan	below 250,000	71.8	–	–	–	–	28.2	100	–	–	–
David Wong	below 250,000	74.3	–	–	–	–	25.7	100	–	–	–
Wong Nang Jang	below 250,000	71.1	–	–	–	–	28.9	100	–	–	–
Patrick Yeoh	below 250,000	75.5	–	–	–	–	24.5	100	–	–	–
Cheong Choong Kong	1,750,000 to 1,999,999	53.0	16.8	1.6	19.5	9.1	–	100	216,000	5.767	15/03/2006 to 13/03/2015
David Conner	5,250,000 to 5,499,999	28.2	31.3	0.9	23.0	16.6	–	100	720,000	5.767	15/03/2006 to 13/03/2015

(a) Represents non-cash component and comprises club and car benefits and employer's contributions to CPF.
(b) Share options were valued as at the date of grant, using the Roll-Geske Model for American call options.
(c) Valued at the actual price of shares purchased from the open market.
(d) Valued at the closing price of the shares on the last trading day of the year.
(e) Adjusted for rights issue and stock split.

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.

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

The 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 ordinary shares to be issued by the Bank in respect of options granted under the 2001 Scheme cannot exceed 10% of the Bank's issued ordinary 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 ordinary 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 five 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 2005, 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 three 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 1,465,948 ordinary shares (adjusted for the rights issue and stock split conducted in the year) 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 ordinary 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 ordinary shares after one year or withdraw the contributions. As a further incentive to employees to enrol 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 five 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.

Risk Management

RISK EXPOSURE AND RISK MANAGEMENT PRACTICE

The main aim of OCBC Group's risk management practice is to protect the Group against losses that could arise from taking risks beyond its risk appetite. The Group's philosophy on risk management is that all risks must be properly understood, monitored, controlled and managed. In addition, risk management processes must be closely aligned to the Group's business strategy, to enable the Group to maximise its risk-adjusted return on capital.

The Group's primary business activity is commercial banking, which is essentially a customer-driven activity where the substantial risk is the credit risks of its corporate, institutional and retail customers. To a lesser extent, commercial banking activities also expose the Group to market risk arising from re-pricing, maturity and currency mismatches of assets and liabilities. These mismatches give rise to interest rate, liquidity and foreign exchange risks.

Trading and investment banking activities, which include sales and trading in money market, foreign exchange and other treasury products and the underwriting of equities and debt instruments as well as stockbroking, are relatively less significant. However, these activities also expose the Group to credit risks and market risks, including interest rate, currency and equity risks.

In the course of conducting its businesses, the Group handles a large number of financial transactions. It is inherently exposed to operational risks arising from failure of internal processes and systems, deficiencies in people and management, or operational failure arising from external events. The provision of financial advisory services to customers for wealth management products, including the sale of unit trusts and life insurance, also exposes the Group to operational and fiduciary risks arising from the failure to meet the general standards expected of such financial advisory activities.

The Group's 82.3%-owned subsidiary, Great Eastern Holdings ("GEH"), is engaged in the insurance business and incurs risks inherent in its principal activities of providing financial advisory services and insurance protection such as mortality, morbidity, property and casualty. GEH, which is listed on the Singapore Exchange, is required to comply with the insurance rules and regulations in Singapore and Malaysia, as applicable, including guidelines on investment limits. It has its own Risk Committee, made up of members of GEH's Board of Directors, which oversees its risk management policies and framework. Details on the insurance-related risk management information of GEH are disclosed in Note 39.7 of the Financial Statements.

Bank NISP became a 51%-owned subsidiary of the Group in April 2005, with the Group's shareholding rising to 72.3% as at the end of 2005. Listed on the Jakarta Stock Exchange, Bank NISP has in place an enterprise-wide risk management framework covering various risk functions including credit, market and operational risks, which ultimately falls under the oversight of its Board of Commissioners (the equivalent of Board of Directors in Singapore). OCBC is assisting Bank NISP to improve its risk management functions and enhance its risk management framework, through a programme of capability transfer and training.

The discussion that follows in the rest of this chapter covers the risk management practices, policies and framework of OCBC Group excluding GEH and Bank NISP. As listed companies, GEH and Bank NISP publish their own annual reports, which contain information on their risk management practices and framework.

RISK ORGANISATION

OCBC Group believes that risk management is most effective when it is a shared responsibility between risk takers and risk controllers, with the Board of Directors providing general oversight. The risk organisation is structured such that there is segregation of duties and reporting lines between risk-taking and risk-controlling units. These principles are applied across the major risk areas, including credit, market and operational risks.

In recent years, OCBC has been building its resources and capabilities in risk management so as to keep pace with business developments. Given that banking products invariably contain a varying mix of risks from different risk categories, the management of risk must be looked at holistically.

The Board Risk Committee is the principal committee that supports the Board in the oversight of credit, market, operational and fiduciary risks and any other category of risks as may be deemed necessary. It is responsible for ensuring effective risk oversight of the Bank and its subsidiaries.

Group Risk Management Division, in supporting the Board Risk Committee and the CEO, is staffed with officers dedicated to risk policy setting, risk measurement methodology and model development, and the monitoring of the OCBC Group's risk profiles and concentrations. In the case of credit risk, dedicated officers are also involved in transaction approval and remedial loan management. Besides the Group Risk Management Division, other functions in the Bank that support the risk management framework include Legal and Compliance, Internal Audit, Operations, Finance and the respective business units where risks are taken or generated.

CREDIT RISK MANAGEMENT

The Credit Risk Management Committee ("CRMC") is the principal senior management committee that supports the CEO and the Board Risk Committee in credit risk management oversight. The CRMC reviews and recommends major credit risk policies for the approval of the CEO and/or the Board Risk Committee. It is also responsible for ensuring that sound credit risk methodologies and effective credit risk management processes are established.

The CRMC includes representatives from major business units, where credit risk is generated, as well as independent credit risk controlling units. This joint effort in setting risk policy seeks to ensure understanding of and commitment to the credit risk management process. The CRMC is supported by the Credit Risk Management ("CRM") departments within Group Risk Management Division. Dedicated CRM units perform the roles of developing risk policies, guidelines and procedures and putting in place the monitoring, reporting and control systems.

Credit Approval Process

The foundation of the credit approval structure is a designation process that delegates lending authority to individual credit signers according to their individual credit skills, knowledge, experience, training and track record.

Credit extensions to corporate and institutional customers are generally required to meet pre-defined target markets and risk acceptance criteria. Individual credit signers from the business units make underwriting decisions jointly with those from the credit risk management units. This "co-grantor" approval approach is designed to ensure objectivity in credit extensions.

For the consumer and small business sectors where transactions are numerous and of smaller amounts, loans are underwritten under pre-approved credit programmes. These programmes focus on credit extensions to individual customers with similar characteristics and/or product needs.

The New Product Approval Committee ("NPAC") approves all new products including credit programmes and reviews existing programmes on a regular basis. The representation of key stakeholders from the business, support and risk management units in the membership of the NPAC ensures objectivity, independence and injection of functional expertise into the decision-making process.

Credit Risk Review

Independent credit risk reviews ("CRR") are conducted across different business units to strengthen the risk oriented credit culture in OCBC. CRR is part of Group Audit and reports directly to the Audit Committee. Established since November 2002, CRR adopts a risk-based approach in evaluating both portfolio and process quality of OCBC's various risk taking units. The Consumer CRR function has also completed the first cycle review of all auditable consumer finance services units in Singapore and Malaysia during 2005.

Credit Portfolio Management

The Group is continuing to develop credit risk grading models to enable it to better differentiate risks in the various segments of its credit portfolio for better decision making and monitoring of risks. Increased attention has been placed on credit stress testing to assess the credit portfolio's vulnerability to "exceptional but plausible" adverse credit risk events and to measure the sensitivity of the Group's earnings and capital to the associated deterioration in credit quality under the stressed scenarios.

The Group is also continuing to develop a centralised credit risk database to store key credit risk data for the Group to more efficiently monitor its credit portfolios.

The Group is in the implementation phase of its preparation for the Revised Framework for Capital Measurement and Capital Standards (Basel II). The adoption of Basel II is targeted for 2008.

Country Risk

A country risk framework is in place, covering the assessment and rating of countries, as well as the maximum cross-border transfer risk limit that can be granted to any one country based on its risk rating. Cross-border transfer risk covers all cross-border transactions including onshore non-local currency transactions. Limits are allocated into maturity time-bands and vary according to the risk rating of the country concerned and the political and economic outlook.

Credit Concentration

The Group seeks to spread its risk exposure amongst the growing economic sectors of the major markets in which it operates. Limits are set on specific customer, industry segments and country in order to avoid over-concentration of credit risks. Prudent limits have also been placed on exposures to single customer groups. Industry and country concentration limits are established in relation to the Group's capital.

Special Asset Management Unit

The Special Asset Management unit continues to manage all Non-Performing Loans ("NPLs") due from Business Banking customers within the Group, extending to OCBC Malaysia and overseas branches. These NPLs are managed either directly by active account management, or where warranted, through the oversight and supervision of the relevant business units' management. The Special Asset Management unit is target driven, with the objective of efficient NPL reduction and maximising loan recovery. The unit maintains its focus through a systematic loan management process that formulates work plans to achieve timely NPL resolution, and its senior management team is actively involved in all stages of the process to ensure that the agreed plans for NPL resolution are achieved within agreed timeframes.

Loan Classification

The Group classifies its loans in accordance with MAS Notice 612 and internal loan classification policies. Performing loans are categorised as 'Passed' or 'Special Mention', while NPLs are categorised as 'Substandard', 'Doubtful' or 'Loss', based on the following guidelines:

- ***Passed*** – Interest and principal payments are fully up-to-date, and orderly repayment and/or timely settlement in the future is without doubt.
- ***Special Mention*** – Currently protected but potentially weak. Borrower exhibits some deteriorating trends which, if not addressed or corrected, could jeopardise the timely repayment of interest and principal.
- ***Substandard*** – Timely repayment and/or settlement is at risk. Well-defined weakness is evident.
- ***Doubtful*** – Full repayment and/or settlement is improbable.
- ***Loss*** – The outstanding debt is regarded as uncollectable.

Restructured Loans

A restructured loan refers to one where the original contractual terms and conditions have been modified upon mutual agreement between the Bank and the borrower. Where a loan is restructured because a borrower is facing severe financial difficulties and where it is probable that the account will have to be downgraded to non-performing status without the restructuring, the restructured loan will be classified as NPL. Once classified as an

NPL, a restructured loan can only be upgraded after a reasonable period (typically six months) of sustained performance under the restructured terms.

Allowances for Loans

The Group maintains a level of allowances for loans that is sufficient to absorb all credit losses inherent in its entire loan portfolio and comprises a specific allowance against each NPL and a portfolio allowance to cover losses that may already exist but have not yet been identified or attributed to specific loans or group of loans in the portfolio. The Group's policy for allowances for loans is guided by Financial Reporting Standard 39 ("FRS 39") as modified by MAS Notice 612.

Specific allowance is established when the present value of future recoverable cash flows of the impaired loan is lower than the carrying value of the loan. Assessment for impairment shall be conducted on a loan-by-loan basis except for homogenous loans (e.g. housing loans, consumer loans, credit card receivables) below a certain materiality threshold where such loans may be pooled together according to their risk characteristics, and collectively assessed as a group (or portfolio) according to the degree of impairment, taking into account the historical loss experience on such loans.

In accordance with FRS 39 as modified by MAS Notice 612, portfolio allowances are set aside based on management's credit experiences and judgement. Credit experiences are based on historical loss rates or where there is limited historical data, internal credit models, which take into account internal risk ratings, geographic, industry and economic conditions over a period of years or credit cycle.

Write-offs

Write-offs of debts are made when recovery action has been instituted and the loss can be reasonably determined. For unsecured consumer loan programmes, the general policy is to write-off overdue debts after 180 days from the first default.

Ceasing of Interest Accrual on Loans

When a loan is classified "Substandard", "Doubtful" or "Loss", interest income ceases to be recognised in the income statement on an accrual basis. However, this non-accrual of interest does not preclude the Group's entitlement to the interest income as it merely reflects the uncertainty in the collectibility of such interest income.

Collateral Held Against NPLs

The major type of collateral backing for the Group's NPLs is real estate in Singapore. The realisable value of the real estate collateral is used to determine the adequacy of the collateral coverage. Proceeds from the sale of collateral pledged for a particular loan cannot be applied to other classified loans unless the accounts are related and cross collateralisation of the facilities is provided for contractually.

Property Exposure

The Bank is in compliance with Section 35 of the Banking Act, which limits its exposure to real estate in Singapore to not more than 35% of its total eligible loan assets.

Information on credit exposures by geographical area, business line and industrial classification, and the breakdown of investment and dealing securities by issuer type, are disclosed in Notes 27, 28, 29, 31 and 38 of the Financial Statements and in the Management Discussion and Analysis chapter.

MARKET RISK MANAGEMENT

Market risk is defined as the uncertainty in the future values of the Group's exposures in financial instruments resulting from movements in market factors such as interest rates, equity prices, and foreign exchange rates.

The Market Risk Management Committee ("MRMC") is the principal senior executive group that supports the Board Risk Committee and the CEO in discharging their market risk oversight responsibilities. The MRMC includes senior representatives from both the business and support units, and is responsible for implementing a robust bank-wide market risk management framework. This framework comprises key market risk principles and policies, best practice measurement methodologies and a comprehensive set of controls and monitoring processes to govern and manage the Group's market risk.

The MRMC is supported at the working level by the Market Risk Management Department ("MRMD"), a department within Group Risk Management Division. The MRMD is responsible for operationalising the market risk management framework as endorsed by the MRMC.

Market Risk Management Framework

The key elements in the market risk management framework are policies and procedures, risk limits and risk measures.

Policies & Procedures – Approved by the Board Risk Committee and the CEO, the policies and procedures provide guidance on the oversight and management of the Group's market risk, and facilitate a common market risk language in terms of definitions and methodologies adopted across the Group. Controls and clear communications are in place to ensure that all business activities conform to the Group's market risk management policies.

Risk Limits – All trading risk positions are monitored on a daily basis against the authorised limits by support units independent of the businesses. Under the market risk corporate governance framework, limits are approved at various business activity levels, with clearly defined exception escalation procedures for each level. All exceptions are to be promptly reported to the relevant senior management for appropriate rectification. Only authorised trading activities may be undertaken by the various business units within the limits allocated.

Risk Measures – The Value-at-Risk ("VaR") methodology is the primary market risk measure for the Group's trading activities. The Board Risk Committee agrees on an aggregate market risk appetite based on VaR. VaR is measured and monitored by risk types, namely interest rate risk, foreign exchange risk, equity risk, volatility risk and credit spread risk, as well as at the aggregate level. The Group adopts the historical simulation approach to measuring VaR, applied against a 1-day holding period at a 99% confidence level. The Group prefers historical simulation as it involves fewer assumptions on the distribution of trading profitability compared to other approaches.

In 2005, the Group changed the holding period of VaR from 10-day to 1-day for risk reporting to better reflect its trading horizon as well to be more in line with common practices among major banks.

Nevertheless, as VaR is a statistical measure based on historical market fluctuations, it might not accurately predict forward-looking market conditions. Furthermore, VaR only reflects the potential risk of loss arising from normal market conditions, based on recent market experience.

Stress Testing

To augment VaR, the Group performs Stress Testing and Scenario Analysis to better quantify and assess potential losses arising from low probability but plausible extreme market conditions. Stress Tests and Scenario Analyses provide insights into the impact on the Group's portfolio as a result of abnormal market conditions. The stress scenarios are continually reviewed and fine-tuned to ensure they stay relevant to the Group's risk profile and the prevailing economic conditions. The main objective of these analyses is to determine if potential losses from such extreme markets are within the Group's risk tolerance and capital level.

Other Risk Measures

As the Group's main market risk is interest rate fluctuations, Present Value of a Basis Point ("PV01"), which measures the change in value of interest rate sensitive exposures resulting from one basis point increase across the entire yield curve, is an additional measure monitored on a daily basis.

Other than VaR and PV01, the Group also utilises other risk metrics such as notional amounts and derivative greeks for specific exposure types, where appropriate, to supplement its risk measurements.

Limits are set based on the above-mentioned risk measures at various levels (business unit, trading desk etc.), and are all monitored independently.

The table on the right provides a summary of the Group's Trading VaR profile, by risk types for 2005.

The Group has no significant trading exposure in Commodity price risk.

VaR BY RISK TYPE – TRADING PORTFOLIO

	2005 [1]				2004			
(S$m)	**Year End**	**Ave**	**Min**	**Max**	Year End	Ave	Min	Max
Interest rate risk	**7.66**	**7.39**	**3.97**	**12.33**	14.99	8.46	2.88	22.23
Foreign exchange risk	**1.01**	**0.90**	**0.15**	**2.28**	1.05	0.90	0.06	4.29
Equity risk	**0.17**	**0.04**	**0.00** [4]	**0.18**	0.31	0.13	0.00 [4]	0.59
Volatility risk [2]	**0.47**	**0.61**	**0.18**	**1.14**	0.27	0.64	0.17	1.97
Credit spread risk	**0.26**	**0.24**	**0.02**	**0.65**	0.23	0.34	0.01	2.04
Diversification effect [3]	**-1.41**	**-1.59**	**NM** [5]	**NM** [5]	-1.55	-2.34	NM [5]	NM [5]
Aggregate risk	**8.16**	**7.59**	**4.05**	**13.55**	15.30	8.13	2.90	20.69

[1] 2005 VaR statistics were based on 1-day holding period, as compared to 10-day holding period for 2004

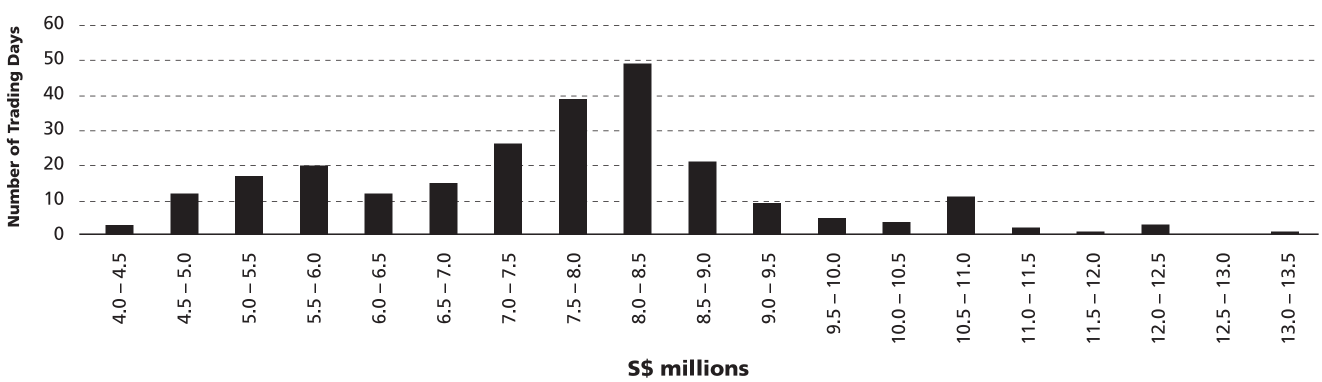
[2] Volatility VaR includes risk related to option's volatility arising from all asset classes, i.e. interest rate, foreign exchange and equity

[3] Year end and average aggregate VaR are not equal to the sum of the VaR of the respective risk type due to portfolio diversifications

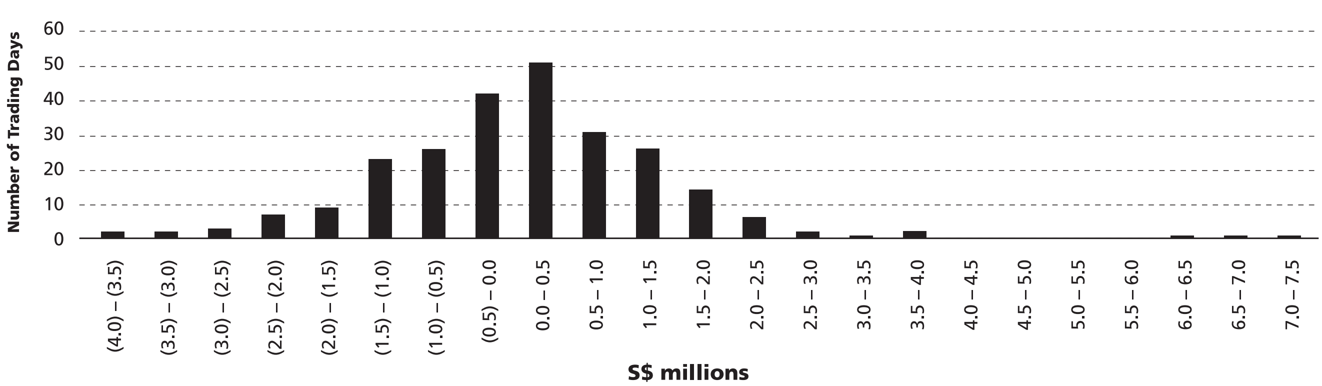
[4] The minimum for equity VaR is zero due to the small size of the equity portfolio and the reporting of equity volatility VaR under volatility VaR

[5] NM - not meaningful as the minimum and maximum VaR for each risk type and the aggregate VaR occurred on different days

Frequency Distribution of Trading Book Daily VaR (1-Day Holding Period) for FY 2005



Frequency Distribution of Trading Book Daily Revenue for FY 2005



Back-Testing

To ensure the continual integrity of the VaR model, the Group conducts back-testing to confirm the consistency of actual daily trading profits and losses ("P&L") against the statistical assumptions of the model. To enhance the back-testing process, theoretical P&L are also computed by marking to market the same set of positions as used for the VaR calculations.

Independent Model Review

The Group trades financial instruments that require statistical pricing models for valuation, for which no quoted market prices are readily available. Deployed across the Group, these models are used for the purposes of marking-to-market as well as risk reporting. The Group ensures the accuracy, appropriateness and consistency of the models using an independent review process, which is supported by a team of quantitative analysts. The review process involves verifying the parameters, assumptions and robustness associated with each model before it can be commissioned for use.

Asset Liability Management Framework

The Asset Liability Management Committee ("ALCO") is the senior management forum that is responsible for overseeing the Group's liquidity and balance sheet risks. The ALCO comprises the Chief Executive Officer, the Chief Financial Officer and other senior representatives from both the business and support units. The ALCO is supported by the Asset Liability Management Department within the Group Risk Management Division.

The Group's Asset Liability Management framework consists of three components:

- Interest Rate Risk Management
- Structural Foreign Exchange Risk Management
- Liquidity Management

Interest Rate Risk – The main market risk faced by the Group is the interest rate risks arising from the re-pricing mismatches of assets and liabilities from its banking business. These are monitored through tenor limits and net interest income changes.

A system is in place to measure the Group's re-pricing mismatch profile. In-depth analyses of current and projected balance sheet positions and the likely impact on the Group's net interest income are performed. Group Treasury actively manages the re-pricing mismatches with the aid of daily re-pricing gap and sensitivity reports, against defined sensitivity limits. The re-pricing gap reports allow for the analysis of the re-pricing profile for the Group's assets and liabilities. The sensitivity reports identify the parts of the yield curve where the Group is most vulnerable to changes in interest rates.

The funding mix varies across the Group. In Singapore, the lending portfolio is largely funded by demand, savings and fixed deposits. The major component of interest rate risks lies in the Bank's extension of commercial property loans, housing loans and automobile loans, which are generally priced at fixed rates. The Group uses the interest rate swap market actively to ensure that these fixed rate exposures are managed within its risk appetite.

Structural Foreign Exchange Risk – The Group's structural foreign exchange exposure arises primarily from its equity investment in overseas subsidiaries and related companies; head office funds in overseas branches and investment in fixed assets and premises. The Group's policy is to protect its capital by ensuring that, where appropriate and practical, exposures arising from changes in exchange rates are minimised. The decision to hedge or otherwise is normally based on economic considerations rather than short term accounting impact.

Liquidity Risk – The objective of liquidity management is to ensure that the Group has sufficient funds to meet its contractual and regulatory financial obligations at all times. As a policy, the Group requires most of its individual subsidiaries and overseas branches to be self-sufficient and to fund their own operations.

It is the responsibility of each local management team to ensure compliance with local regulations and the Group's requirements on liquidity management. Liquidity is managed daily at each branch or subsidiary, taking into account the complexity of the individual balance sheet, as well as the depth and liquidity of the local market.

The Group's liquidity policy is to ensure that all contractual and behavioural commitments can be met by readily available sources of funding. In addition, a level of liquid assets is maintained in relation to cash flows to provide further sources of funding in the event of a crisis. The Group frequently accesses the wholesale financial markets to ensure the availability of funds.

The liquidity management process includes projecting cash flows by major currencies; monitoring liquidity ratios and depositor concentration to ensure an appropriate funding mix and avoid undue reliance on large individual depositors; and maintaining a contingency funding plan. Cash flow projections are also subject to stress tests to ensure that the Group has the ability to withstand sudden and heavy cash outflows. The stress tests are conducted on a regular basis to assess and measure liquidity risk under a bank-specific and general market crisis situation.

Pursuant to MAS regulations, banks are currently required to meet a statutory Minimum Liquid Assets ("MLA") requirement, comprising Singapore Government Securities, Singapore Government Securities held under reverse repurchase agreements with, among others, banks in Singapore, and commercial bills of exchange in Singapore dollars, accepted or endorsed by banks in Singapore. In addition, the Bank maintains a daily minimum cash balance with the MAS of at least 3% of its Singapore-dollar denominated liabilities. With the introduction of the new liquidity supervision framework under the revised MAS 613 Notices to Banks in Singapore, the Bank is now operating under the risk-determined and bank-specific MLA framework, whereby it qualifies for lower MLA requirements based on its liquidity risk profile and management capabilities.

OPERATIONAL RISK MANAGEMENT

Operational risk is the potential loss caused by a breakdown in internal processes and systems, deficiencies in people and management, or operational failure arising from external events. The goal of operational risk management is to minimise unexpected and catastrophic losses as well as to manage expected losses. This enables new business opportunities to be pursued in a risk controlled manner and increases risk adjusted profitability through calculated risk-and-reward decision making.

Operational risk management comes under the oversight of the Operational Risk Management and Information Security Committee ("ORISC"), which includes senior representatives from risk management, business units and relevant support functions. Business units are supported by the Operational Risk Management ("ORM") Department of Group Risk Management Division, which has established the operational risk management framework, including policies and methodologies, and provides independent oversight of operational risk monitoring and control. The operational risk management programmes are actively implemented through the Operational Risk Coordinators in the business units.

The Group has also institutionalised an internal control framework. This provides a solid foundation for an effective internal control system that strengthens the Group's control culture by establishing clear roles and responsibilities for staff and by preserving their "rights" in the control function. An effective internal control system is an essential ingredient of good corporate governance. It enables the Group to achieve its objectives by detecting and preventing improper activities, managing and controlling risk appropriately and enabling business opportunities to be pursued in a risk-controlled manner.

In addition, to promote a culture that encourages staff to report any suspicions of fraud, irregularity or misdemeanour without fear of reprisals, the Group has strengthened the whistleblowing programme by enhancing communication with and protection for the "whistleblower".

A comprehensive strategy has been formulated to provide a group-wide integrated solution encompassing the roll-out of qualitative and quantitative tools and methodologies which will position the Group to qualify for the more advanced risk management approaches recommended by the Basel committee.

A well-established and comprehensive loss event and incident reporting system that is aligned to both regulatory and industry standards, to monitor and manage operational losses is in place. To address the need for continual risk assessment, the Group has in place a comprehensive risk and control self-assessment programme, complemented by scenario analysis for proactive event risk management. To strengthen our "early warning" system, a key risk indicator programme is being progressively rolled-out to monitor significant operational risk exposures and drive management action via the use of management action triggers.

Business continuity, crisis management and risk-based insurance management programmes are in place as an integral part of the Group's strategy to mitigate risks and to manage the impact of unforeseen events. In addition, operational risk training programmes including e-learning are conducted on an ongoing basis to cultivate a proactive risk management culture within the Group.

FIDUCIARY RISK MANAGEMENT

In providing investment or wealth management products or services, it is critical to ensure that the business units perform at the appropriate standard relative to the Group's trust relationship with a client. Fiduciary risk is the possibility that the Group, may knowingly or unknowingly, in the course of managing funds among other things, exercise discretion, make decisions, or take actions which fail to satisfy the applicable standard of conduct appropriate for a trustee relationship.

The Group has put in place a Fiduciary Risk Management Programme, focusing primarily on compliance to applicable corporate standards with regular identification, assessment, mitigation and monitoring of fiduciary risk exposures. The Fiduciary Risk Management Committee ("FRMC") has been established to oversee fiduciary-related risks that may result in losses or reputational damage. The FRMC oversees the Group's fiduciary risk profile and co-ordinates the development and implementation of Fiduciary Risk Management principles and policies.

REPUTATION RISK MANAGEMENT

Reputation risk exposure is the current and future adverse impact on earnings and capital arising from negative public opinion. This may affect the Group's ability to establish new relationships and may even adversely impact the servicing of existing relationships. It may expose the Group to litigation, financial loss, or a decline in its customer base.

The Group has established a Reputation Risk Management Programme, focusing primarily on regular stakeholder management, identification, assessment, mitigation, monitoring and reporting of reputation risk exposures.

Recognising the pervasive nature of the sources of reputation risk, the Group has adopted a two-pronged approach to managing reputation risk:

- **The top-down approach** is used to manage reputation risk events and catastrophic scenarios that have group-wide implications and impact. This is managed primarily through cross-functional collaboration in scenario analysis and contingency planning.

- **The bottom-up approach** is used for day-to-day management of potential reputation risk events/factors through the risk and control self-assessment programme and stakeholder management.

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