

# DBS Group Holdings Ltd

## Corporate Governance Report

### INTRODUCTION

DBS Group ("DBS") adheres to the highest standards of corporate governance. The benchmark for corporate governance in Singapore is the Code of Corporate Governance ("Code"), which took effect on January 1, 2003. The Code was issued in 2002 by the Corporate Governance Committee and supplemented by the recommendations of the Working Group formed by the three Singapore banking groups.

This Report describes DBS' corporate governance processes with specific reference to the Code.

### THE BOARD OF DIRECTORS

#### Board's Conduct of its Affairs

DBS Group Holdings ("DBSH")'s Articles provide that the business of DBSH shall be managed by the directors, who may exercise all the powers of DBSH, subject to the provisions of the Companies Act or the Articles of Association and to such regulations as may be prescribed by DBSH in general meeting. Without detracting from the Articles, the DBSH Board has also decided that certain matters must always be approved by the Board. These include:

- (a) the consolidated financial statements and directors' report of the DBS Group;
- (b) any strategic plan for the DBS Group and how actual results compare with the plan;
- (c) the annual budget for the DBS Group;
- (d) all strategic acquisitions by the DBS Group;
- (e) all major fund-raising exercises of the DBS Group; and
- (f) all decisions that will have a major impact on the reputation or standing of the DBS Group.

The DBSH Board ("Board") conducts regular scheduled meetings four times a year and also holds adhoc Board meetings as and when required. The Articles of DBSH allow a Board meeting to be conducted by way of a tele-conference. The attendance of the directors at meetings of the Board and Board committees, as well as the frequency of such meetings, are disclosed in this annual report.

DBS has training programmes for directors to meet their relevant training needs. New directors attend a one-day briefing session or more if necessary on the operations of all the key business and support units. Prior to their appointment, new directors are also provided all relevant information on their duties as a director under Singapore law. Directors are updated regularly on key accounting and regulatory changes.

Directors may at any time request further explanations, briefings or informal discussions on any aspects of DBS' operations.

#### Role of Chairman and Chief Executive Officer

The Chairman and CEO functions in DBS are assumed by different individuals. The Chairman, S. Dhanabalan, is a non-executive director, while the CEO, Jackson Tai, is an executive director.

The CEO is the most senior executive in DBS and assumes executive responsibility for DBS' business, while the Chairman assumes responsibility for the management of the Board.

In respect of Board meetings, the Chairman ensures that board meetings are held when necessary. The board agenda is set by the CEO and approved by the Chairman. The Chairman ensures that Board members are provided with complete, adequate and timely information.

#### Board Composition and Balance

The Board comprises three non-independent directors. These include the Chairman, S. Dhanabalan, who is a nominee of Temasek Holdings Pte Ltd, DBSH's substantial shareholder, and two executive directors (Jackson Tai, who is Vice Chairman and CEO of both DBSH and DBS Bank, and Ng Kee Choe, Vice Chairman of DBSH).

The independence of each director is reviewed annually by the Nominating Committee ("NC"). The NC adopts the Code's definition of what constitutes an independent director in its review. The NC considers that, apart from Mr Dhanabalan, Mr Tai and Mr Ng, the remaining directors are all independent. This includes LP Thean, a non-profit sharing employee at Singapore law firm Khattar Wong & Partners ("KWP") carrying the title of consultant. He does not participate in deliberations in the firm on matters relating to DBS and is therefore considered an independent director of DBS, notwithstanding that KWP is one of a number of law firms providing legal services to DBS. The NC is also of the view that the current Board comprises persons who, as a group, provide core competencies necessary to meet DBS' requirements.

While there is no limit on the number of directors that may be appointed under DBSH's Articles, the Board is of the view that its current board size of 13 members is appropriate, taking into account the nature and scope of DBS' operations.

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### Access to Information

Management provides the Board with a monthly update covering financial results, market and business developments and other important and relevant information.

If directors, whether as a group or individually, need independent professional advice, the company secretary will seek the appropriate external advice. The cost of such professional advice will be borne by DBS.

The company secretary attends all board meetings and ensures that board procedures are followed and relevant regulations are complied with. The company secretary also attends all meetings of the Audit Committee, the Nominating Committee and the Board Risk Management Committee.

### Board Appraisal

The DBSH Board implemented a board appraisal process for the first time in 2003. Individual board members assess the performance of the Board as a whole, and provide feedback to the Chairman of the Board and the Chairman of the Nominating Committee. Both Chairmen consolidate the feedback and present the findings to the Board at the Board meeting held before the annual general meeting. The appraisal form used by the DBSH Board is based on sample board appraisal forms recommended by internationally-recognised bodies on corporate governance. The Board has decided to defer assessment of individual directors to a later date.

The process described above differs from that recommended by the Code of Corporate Governance in a number of respects:

- (a) The Code states that the Nominating Committee should decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, that allow comparison with its industry peers, should be approved by the Board and address how the Board has enhanced long-term shareholder value. These performance criteria should not be changed.

The Board feels that the process should not be confined to the NC, but should be performed by the Board as a whole, to encourage feedback and facilitate constructive discussion on the Board's strengths and shortcomings. The process may be refined in future years.

- (b) DBSH also considers that financial performance criteria may not be entirely appropriate for tracking Board performance. In addition to the difficulty of deciding which particular financial performance criteria should be adopted, it was also felt that such criteria did not evaluate a crucial element of the Board's role, namely, supervision and oversight. The Board therefore felt that its performance should be judged on the basis of accountability as a whole, rather than strict definitive financial performance criteria.

- (c) The Code recommends that individual assessment of directors be carried out as well.

The Board felt it would be more appropriate, in the first phase of the Board appraisal process, to focus on collective Board performance and defer individual assessment to a later stage.

### BOARD COMMITTEES

DBS has established a number of Board committees to enhance its corporate governance structure, including Nominating, Audit, Compensation, Board Risk Management, and Executive Committees.

#### Executive Committee

The DBSH Executive Committee ("Exco") comprises 5 members (S. Dhanabalan (Chairman), Jackson Tai, Ng Kee Choe, Bernard Chen Tien Lap and Fock Siew Wah) and is authorised to exercise all the powers of the Board, except those which the Board may only exercise by law or which the Bank has expressly reserved for itself.

#### Board Risk Management Committee

The Board Risk Management Committee ("BRMC") comprises 3 members (Fock Siew Wah (Chairman), Tommy Koh Thong-Bee and Bernard Chen Tien Lap).

The role of the BRMC is to:

- (a) assist the Board in reviewing risk policies;
- (b) approve delegation of risk decisions to the Exco or other Bank Committee;
- (c) periodically review risk profile at the portfolio level; and
- (d) perform any other functions as may be agreed by the Board.

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### Compensation Committee

The Compensation Committee ("CC") comprises 5 members (LP Thean (Chairman), S. Dhanabalan, Fock Siew Wah, CY Leung and Yeo Ning Hong). As recommended by the Code, Mr Thean is an independent director.

The role of the CC is to:

- (a) review and approve the remuneration, including the grant of share options and performance shares to the executive directors of DBS and DBS Bank;
- (b) review and approve the aggregate variable cash bonuses, share options and performance share grants to the employees of DBS Group; and
- (c) oversee management development and succession planning in DBS.

### Nominating Committee

As required by regulation and its Articles, DBSH has established a Nominating Committee ("NC") comprising 5 members. The Chairman of the NC is Tommy Koh Thong-Bee, an independent director.

The role of the NC is to identify candidates and review all nominations by the Board, any Director or any member of DBSH for the following positions in DBS:

- (a) Director and Alternate Director (for both appointment or re-appointment, election or re-election). In deciding on the appointment of new candidates to the Board, the NC will take into account the proposed appointee's background, experience and other board memberships;
- (b) membership of the Executive Committee, the Compensation Committee, the Audit Committee, the Board Risk Management Committee and any other Board committees that may be established from time to time;
- (c) the Chief Executive Officer, Deputy Chief Executive Officer, President, Deputy President and Chief Financial Officer, including any other officer, by whatever name called, who has responsibilities and functions similar to any of these officers.

New directors are at present appointed by way of a board resolution, after the NC recommends and supports their appointment. Such new directors must submit themselves for re-election at the next annual general meeting of DBSH. One-third of the directors must also retire by rotation at each annual general meeting.

### Audit Committee

The Audit Committee ("AC") comprises non-executive directors Bernard Chen Tien Lap (Chairman), Tommy Koh Thong-Bee and Moses Lee Kim Poo. All are independent non-executive directors.

The role of the AC is to:

- (a) review the financial statements prior to submission to the Board;
- (b) review with the external auditor the audit plan, the evaluation of the system of internal accounting controls and the external auditor's audit report;
- (c) review the scope and results of the internal audit procedures;
- (d) nominate the external auditor;
- (e) review the cost effectiveness, independence and objectivity of the external auditors and (where the auditors also supply a substantial volume of non-audit services to DBS) to keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money; and
- (f) any other functions which may be agreed by the Audit Committee and the Board.

The AC also has explicit authority to investigate any matter within its terms of reference and full access to and co-operation by management and full discretion to invite any director or executive officer to attend its meetings. The AC has reasonable resources to enable it to discharge its functions properly.

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In its review of the audited financial statements for the financial year ended 2002, the AC discussed with management and the external auditors the accounting principles that were applied and their judgement of items that might affect the financials. Based on the review and discussions with management and the external auditors, the AC is of the view that the financial statements are fairly presented in conformity with generally accepted accounting principles in all material aspects.

The AC meets with the external auditors separately after each AC meeting.

The AC has received the requisite information from PricewaterhouseCoopers (PwC) and has considered the financial, business and professional relationship between PwC and DBS. The AC has also conducted an annual review of the volume of non-audit services provided by PwC to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the auditors before confirming their re-nomination. The AC is of the view that PwC can be considered independent.

In response to the requirement of the Monetary Authority of Singapore that banks in Singapore must rotate their auditors, the AC has nominated Ernst & Young to be the auditors for the ensuing year. The appointment is subject to shareholders' approval at the annual general meeting on April 21, 2003.

### Internal Audit

Group Audit is an independent function that reports directly to the Audit Committee and the CEO. Its scope of work covers all business and support functions in the DBS Group, both in Singapore and overseas. All audit offices in the Group follow a consistent set of code of ethics based on principles recommended by the USA Institute of Internal Auditors.

The annual audit plan is developed under a structured Risk Assessment Approach that examines all of the Group's activities and entities, the inherent risks and internal controls therein. Audit assignments are identified based on this Approach and audit resources are focused on the higher risk activities.

The progress of corrective actions on all outstanding audit issues is monitored monthly through Group Audit's centralised Global Audit Tracking System. Information on outstanding issues is categorised and reported to senior and line management through the Monthly Control Reports.

All audit reports are copied to the Audit Committee, external auditors and senior executives of the Group, including the Chief Executive Officer, Chief Financial Officer, Chief Compliance Officer and Head of Group Risk.

Group Audit meets regularly with the external auditors to strengthen working relationships between both parties, discuss matters of mutual interest, develop a common understanding and co-ordinate the audit efforts.

In the course of 2002, Group Audit carried out its functions in accordance with the general description provided above.

The professional competence of the internal auditors is maintained through Group Audit's continuing professional development programme, which focuses on updating auditors' knowledge of auditing techniques, regulations and banking products and services.

Ng Peng Khian, Managing Director & Head of Corporate Security, was appointed the Acting Head of Group Audit in February 2003. With over 20 years of auditing experience, he is a Certified Internal Auditor (CIA) and a Certified Information Systems Auditor (CISA).

As stated above, Group Audit works closely with the external auditors, PwC. The external auditors carry out, in the course of their annual statutory audit, a review of the effectiveness of DBS' material internal controls and risk management to the extent of their audit plan. Material non-compliance and internal control weaknesses noted during their audit, along with any recommendations, are reported to the AC.

### Internal Controls

A sound system of internal controls can only operate within a defined organisational and policy framework. The management framework at DBS clearly defines the roles, responsibilities and reporting lines of business and support units. Delegations of authority, control processes and operational procedures are all documented and disseminated to staff. While all employees have a part to play in upholding the system of internal controls, certain units are more directly involved than others in maintaining and upholding this system. These include Group Audit, Group Risk and Group Compliance.

Business controls are reviewed on an ongoing basis by Group Audit, whose work is supplemented by that of the external auditors. The role of Group Audit and the external auditors is described in the section on "Internal Audit".

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Risk management is essential to the DBS Group's business. Group Risk has specific accountability for reviewing the system of risk management and risk management processes have been integrated throughout the DBS Group into the business planning and monitoring processes, particularly through the approval process for new products and services. The risk management process in DBS is also strengthened through the regular deliberations of the Board Risk Management Committee.

2002 also saw the establishment of a Group Compliance function within the DBS Group responsible for leadership and central oversight in instilling and maintaining a strong compliance culture and framework within the DBS Group. Individual compliance officers are stationed within key business units.

The AC has reviewed DBS' risk assessment and has made its report to the Board.

Based on the information furnished to the Board, nothing has come to the Board's attention to cause the Board to believe that the internal controls and risk management processes are not satisfactory for the type and volume of business conducted.

### **COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDER PARTICIPATION**

DBS adopted quarterly results reporting in September 2001, ahead of the regulatory timeline imposed by the SGX.

DBS has an active dialogue with shareholders, both institutional and retail, and takes its responsibilities towards shareholders very seriously. DBS holds a media and analysts briefing for the release of its results. All new releases, audited financial statements and financial results announcements are published on MASNET and DBS' website. There is also an investor relations team which meets key institutional investors on a regular basis.

DBS does not practise selective disclosure. Price sensitive information is first publicly released, either before DBS meets with any group of investors or analysts or simultaneously with such meetings.

DBS has reviewed the Code recommendation that companies encourage greater shareholder participation at annual general meetings by allowing shareholders to vote in absentia via such methods as email, fax etc. Following advice that the present legal and regulatory environment is not entirely conducive to absentia voting methods (particularly email voting), DBS has decided to defer the introduction of absentia voting methods until an appropriate time.

### **DEALINGS IN SECURITIES/BEST PRACTICES GUIDE**

In line with the one month blackout period on trading in a listed issuer's securities recommended in the SGX-ST Best Practices Guide, DBS requires all staff in the DBS Group not to trade in DBSH securities during the period beginning one month before the release of the final-year, half-year and quarterly results and ending on the date of release of the results itself.

DBS has complied with the Best Practices Guide issued by the SGX-ST.

### **RELATED PARTY TRANSACTIONS**

The DBS Group's policy on transactions with related parties is driven by compliance with statutory and regulatory requirements, namely:

- (a) (in the case of DBS Bank) Section 29 of the Banking Act, Chapter 19; and
- (b) (in the case of DBSH) MAS Directives to Holding Companies No. 8 and Chapter 9 of the SGX Listing Manual on interested person transactions (see the section on "Interested Person Transactions Policy" immediately following this section).

Under Section 29(1)(d) of the Banking Act, a bank cannot grant unsecured credit facilities, directly or indirectly, which in the aggregate and outstanding at any one time exceeds the sum of \$5,000 to:

- the bank's directors
- any firm in which the Bank or any of its directors has an interest as a partner, manager or agent, or to any individual or firm of whom or of which any of its directors is a guarantor
- a company in which any of its directors, whether legally or beneficially, owns more than 50% of the issued capital or in which any of its directors controls the composition of the board of directors, but excluding public companies, the securities of which are listed on SGX or other stock exchange approved by MAS and the subsidiaries of such public companies
- any corporation, other than a bank, that is deemed to be related to the bank as described in Section 6 of the Companies Act

In addition, under Section 29(1)(e) of the Banking Act, a bank shall not grant to any of its officers (other than a director) or its employees or other persons, being persons receiving remuneration from the bank (other than any persons receiving remuneration from a bank in respect of their professional services) unsecured credit facilities which in the aggregate and outstanding at any one time exceed one year's emoluments of that officer or employee or person.

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To ensure compliance with Section 29(1)(d) and (e), DBS Bank has taken the following steps:

- Compliance with Section 29(1)(d) and (e) is an integral part of the credit approval process
- Before directors are appointed, they are notified of the requirements of Section 29(1)(d) and their existing facilities, if any, are adjusted to comply
- The Bank sends all directors an annual reminder to update their particulars and the entities in which directors have an interest as defined in Section 29(1)(d)

Directive 8(2)(1) restricts lending and guarantees by a financial holding company such as DBSH. Under Directive 8(2)(1), a financial holding company may not, inter alia, grant any credit facility to any person other than a subsidiary or any of its officers (other than a director) or its employees or other persons, being persons receiving remuneration from the financial holding company (other than in respect of professional services rendered). In particular, under Directive 8(2)(2), a financial holding company shall not grant, directly or indirectly, unsecured advances or loans under Directive 8(2)(a) to:

- Any subsidiary which in the aggregate and outstanding at any one time exceeds the sum of \$5,000 except to any subsidiary which is a bank licensed under the Banking Act, a finance company licensed under the Finance Companies Act or, with MAS' prior approval, a foreign banking subsidiary
- Any of its officers (other than a director) or its employees or other persons, being persons receiving remuneration from the financial holding company (other than in respect of professional services rendered) which in the aggregate and outstanding at any one time exceeds one year's emoluments of that person.

Compliance with MAS Directive No. 8 is an integral part of the credit approval process for all financial accommodation made by DBSH.

The DBS Group has granted credit facilities to the following related parties in the ordinary course of business on normal terms and conditions. The outstanding amounts of these credit facilities and the estimated values of collaterals at end December 31, 2002 are as follows:

In S\$'million	Credit facilities granted to	Contingent credit facilities granted to	Estimated values of collaterals	Deposits received by DBSH Group
Granted/received from:				
DBSH Directors and their related entities	6	#	19	-
Companies which have DBSH Directors represented on their boards	652	41	335	-
Holding company	-	-	-	222
Subsidiary companies <sup>(1)</sup> , fellow subsidiary companies	722	5	870	589
Associated and joint venture companies	77	10	19	212

Notes:

(1) Excludes transactions between subsidiary companies and their own subsidiary companies

(2) # Amount under S\$500,000

### INTERESTED PERSON TRANSACTIONS POLICY

As a listed company on the Singapore Exchange, DBSH is required to comply with Chapter 9 of the SGX Listing Manual on interested person transactions. To ensure compliance with Chapter 9, the DBS Group has taken the following steps:

- Compliance with Chapter 9 is an integral part of the credit approval process
- Business units have been notified of the provisions of Chapter 9 and are aware of their obligations. A list of interested persons is available in the intranet for access by designated staff. Business units are also reminded annually of their Chapter 9 obligations
- New subsidiaries on incorporation or acquisition are informed of their obligations under Chapter 9
- DBSH writes to its directors once a year for an update on their personal particulars for Chapter 9 monitoring

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The following are details of the interested person transactions entered into by the DBS Group in 2002:

Name of interested person	Aggregate value of all interested person transactions during 2002 (excluding transactions less than S\$100,000)
Singapore SMRT Ltd	(1) S\$13,125 per month or S\$472,500 for whole contract of 36 months (2) S\$6,175 per month or S\$222,300 for whole contract of 36 months
Semac Pte Ltd	S\$774,926 per annum
Somerset Heritage Pte Ltd	S\$385,200 per annum
Ascott International Management Pte Ltd (Costa Sands Resort)	S\$116,184 per annum
DataPost Pte Ltd	Estimated S\$2.1 million per annum
Pacific Internet Ltd	Estimated S\$506,000 per annum
NTUC Income Insurance Cooperative Ltd	S\$386,100 for whole contract of 36 months
CapitaLand Commercial Ltd	S\$3,455,504 for whole contract of 36 months
Singtel Aeradio	S\$407,268 for whole contract of 24 months
Seraya Energy Pte Ltd	S\$2,620,291 for whole contract of 12 months

### Conclusion

DBS is committed to the highest corporate governance standards. DBS will continue to review, and improve, its corporate governance processes on an ongoing basis.