Annual Remuneration Disclosures under CPS 511

As at 31 December 2024

Bank of China Australian Group Operations

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1. Introduction

The Bank of China ("the Bank") operates in Australia through two separately licensed Authorized Deposit-taking Institutions (ADIs), collectively referred to as the Bank’s Australian Group. These include:

- **Bank of China Limited Sydney Branch (BOCS):** The Australian branch of a foreign ADI, incorporated in China.
- **Bank of China (Australia) Limited (BOCAL):** A locally incorporated, wholly owned subsidiary providing retail banking services.

All Bank of China employees for its operations in Australia are employed by BOCS and deliver services to BOCS and/or BOCAL under a jointly approved Outsourcing Services Agreement, with each ADI operating within separate governance frameworks.

This remuneration disclosure complies with the Australian Prudential Regulatory Authority's (APRA) remuneration requirements as specified in the prudential standard CPS 511 Remuneration, in line with the remuneration policy of Bank of China Australian Group.

2. Remuneration Governance

The remuneration framework is based on the remuneration framework of Bank of China Group (registered in Beijing) and tailored to align with Australian market practices and regulatory requirements.

In compliance with the Prudential Standard CPS 511 Remuneration (CPS 511), this framework applies to all employees involved in the Bank’s operations in Australia, as well as to material third-party service providers under APRA’s oversight, engaged in providing critical services to the Bank’s business operations.

2.1 Remuneration Governance in BOCS

The governance of remuneration within Bank of China Ltd, Sydney Branch (“BOCS”) is overseen by the following key bodies:

- **Senior Officer Outside Australia (SOOA):** Holds final approval authority for remuneration policies and is responsible for overseeing the effectiveness of remuneration practices and ensuring their compliance with CPS 511 requirements.

- **BOCS General Management (GM):** Oversees the implementation of remuneration policies and the remuneration framework, ensuring compliance with CPS 511. GM also conducts regular reviews of remuneration policies and makes necessary adjustments in response to market trends, regulatory updates, and the Bank's operational needs.
- **BOCS Risk Management and Internal Control Committee (RMICC):** Assesses the impact of remuneration arrangements on the Bank's overall risk management framework and ensures alignment with CPS 510 – Governance and the Banking Act, preventing excessive risk-taking.

Following a review by BOCS General Management, the remuneration policy is submitted to SOOA for final approval.

2.2 Remuneration Governance in BOCAL

Bank of China (Australia) Ltd ("BOCAL") manages remuneration governance through the following key bodies:

- **Board of Directors (Board):** Holds ultimate approval authority for the remuneration policy. The Board oversees the effectiveness of the policy and ensures it aligns with regulatory and operational requirements.
- **Remuneration Committee:** Implements the remuneration policies and framework, ensuring full compliance with CPS 511. The Committee conducts regular reviews and adjustments to the policy, aligning it with market trends, regulatory changes, and the Bank's evolving operational requirements.
- **BOCAL Risk Management and Internal Control Committee ("RMICC"):** Evaluates the impact of remuneration arrangements on the Bank's overall risk management framework, and ensures that remuneration policies do not incentivize excessive risk-taking.

The current Remuneration Policy has been updated to align with the CPS 511 Remuneration Prudential Standard and was approved by both SOOA and the Board. The revised policy became effective on 1 January 2024.

3. Remuneration Design and Structure

The Remuneration Policy is designed to ensure fairness in the distribution of remuneration, while consistently aligning incentive mechanisms with the Bank's risk management framework, thereby supporting prudent and sustainable growth.

The Bank adopts a "position-based, competency-driven, and performance-linked" approach to employee remuneration, ensuring that remuneration is determined by the value of the position, individual capabilities, and performance outcomes. The remuneration structure includes both fixed and variable components, designed to align with the Bank's prudent risk management requirements while maintaining a strong connection to performance outcomes.

3.1 Fixed Remuneration

Fixed remuneration reflects the fundamental value of a position, as well as an employee's competence and proficiency. It is determined based on market benchmarks, the Bank's remuneration strategy, and its financial capacity. The Bank aims to conduct an annual review of fixed remuneration to ensure ongoing alignment with internal equity and market competitiveness. However, this review does not guarantee automatic salary increases.

Fixed remuneration review budget is determined based on the affordability of the BOC Group as well as the performance of the Bank's Australian Group, business units, and individuals during the previous assessment year.

During the reporting period, the Bank reviewed the fixed remuneration of employees with more than one year of service, assessing overall percentage adjustments across the workforce. The annual salary adjustment was reviewed or approved by the Head Office and approved by the Board, depending on the type of adjustment, the employee's role, and their level of seniority. The majority of employees received an annual salary adjustment.

3.2 Variable Remuneration

The Bank offers performance-based bonuses as its variable remuneration. These short-term incentives (STI) are paid in cash through the Bank's payroll system to qualified employees. Variable remuneration is directly linked to the Bank's overall operational performance, the performance of Business Units, and individual employee performance outcomes.

Performance outcomes are determined through the Bank's annual performance review process, as outlined in the Performance Management Policy. The evaluation system integrates risk considerations into both performance management and job design, incorporating both financial and non-financial indicators, including:

- **Financial performance:** Operating revenue, business growth, profit margins, and other key financial metrics.
- **Non-financial performance:** Risk management, regulatory compliance, internal controls, competency, and other qualitative factors that support the Bank's long-term stability and sustainable growth.

Variable remuneration is determined annually in light of the Bank's Australian Group's annual performance assessment result. The size of variable remuneration pool is calculated with reference to a pre-defined formula provided by the BOC Group Head Office. Allocation of individual variable remuneration is closely linked to the performance of the business unit and the individual employee. Risk factors (including non-financial risk outcomes) are fully considered at each level of assessment, and related risk measures are clearly stated on all balance score cards.

In cases involving employee misconduct, compliance breaches, or reputational risk, performance assessments will reflect the corresponding risk management outcomes to ensure that remuneration arrangements remain aligned with sound risk management principles. In addition, management retains the discretion to adjust variable remuneration outcomes that would otherwise be determined based on formulaic calculations.

The awarding of variable remuneration is subject to approval by the Head Office and the Board, with the decision made on either an aggregate or individual basis depending on the employee's role, and their level of seniority.

This structured approach ensures that variable remuneration remains aligned with prudent risk management practices while fostering the Bank's balanced and sustainable development.

4. Risk Adjustment of Remuneration

All employees covered by the Remuneration Policy are assessed with reference to risk factors relevant to their roles.

4.1 Risk Impact on Current Year Remuneration

Performance against key risk measures applicable to individual employees is reviewed and assessed annually. Any deficiencies in risk management, breaches of internal limits or regulatory requirements on the part of any employee in the Group will have a direct bearing upon that employee's remuneration and potentially their employment outcomes for the year under review.

The occurrence of weak performance in any one year would impact the current year's variable remuneration as well as fixed remuneration in future years. Accordingly, where weak performance has occurred, the current year variable remuneration would decrease by a ratio commensurate with each performance rating. Past year performance outcome is also a factor when deciding the increment percentage for the future year fixed remuneration.

4.2 Risk Impact on Deferred Variable Remuneration

To ensure the remuneration remains aligned with the Group's long-term performance, risk controls, and local regulatory requirements, as a non-Significant Financial Institution (non-SFI), the Bank implemented deferral arrangements for variable remuneration in compliance with the Banking Act (Cth) deferred remuneration obligations and the Financial Accountability Regime (FAR) regulatory requirements. These deferral arrangements apply to eligible individuals, including:

- Senior Management
- Material Risk Takers (MRTs)
- Accountable Persons (APs)

During the reporting period, 40.1% of deferred variable remuneration was subject to a five-year deferral period, with the first vesting review and payment occurring after four years.

The Bank incorporates risk assessment factors into the balanced scorecard as potential deduction items for deferred remuneration. Based on these assessments, the Bank may take the following adjustment actions to ensure that variable remuneration remains aligned with risk-adjusted performance outcomes:

- **Malus**: In cases of misconduct or deficiencies in risk management, the Bank has the authority to adjust or forfeit unvested deferred remuneration. If the employee has committed no breaches of risk control requirements, the total score deduction is zero, and the employee may receive the full amount of their deferred remuneration.
- **Clawback**: If a recipient is found to have committed a significant compliance breach or if financial adjustments necessitate corrections after remuneration has been paid, the Bank may recover part or all of the remuneration.

In conclusion, the Bank's remuneration framework is designed to align employee incentives with the Bank's long-term objectives, promoting responsible risk-taking and prudent financial management. In addition to in-period adjustments, the Bank also ensures that variable remuneration remains performance-driven and consistent with its risk strategy, through the implementation of deferral arrangements, malus, and clawback provisions, thereby supporting sustainable growth and regulatory compliance.