



BASEL Pillar 3

Annual Remuneration Disclosures under APS 330

As at 31 December 2019

Bank of China Australian Group Operations

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Pillar 3 Annual Remuneration Disclosures as at 31 December 2019

Preamble

Bank of China operates in Australia as two separate ADIs, one being the Australian Branch of a Foreign ADI, Bank of China Limited, incorporated in China and the other, Bank of China (Australia) Ltd a locally incorporated ADI which provides retail banking services. All Bank staff are employed by the Branch entity and deliver services and functions to the locally incorporated subsidiary under an Outsourced Services business model with separate governance arrangements in place.

Qualitative Disclosures:

(a) Remuneration Governance

- Separate remuneration governance arrangements are in place for the Bank's Australian Group. Bank of China Ltd Sydney ("BOCS") Branch General Management is responsible for oversight of remuneration arrangements for all the Bank's employees in Australia and comprises of 7 senior executive members.
- The Board Remuneration Committee of Bank of China (Australia) Ltd ("BOCAL") is responsible for oversight of remuneration arrangements for staff and other persons delivering material outsourced services. In carrying out its duties, the Committee seeks to balance the principles of risk and reward for performance in a manner which supports BOCAL's risk management framework and conservative risk appetite.
- Bank of China Australian Operations may from time to time seek remuneration advice from external consultants such as the Financial Institution Remuneration Group ("FIRG") of which the Bank is a member. FIRG provides information such as market benchmarking and comparisons of structure of remuneration across a broad range of financial institutions operating in Australia.
- Bank of China Group has implemented a Remuneration System globally within the Group, which covers all local and expatriate employees in Australia. The Remuneration Policy of Bank of China Australian Operations is founded upon the Group Remuneration System and customized to be in line with Australia local market practice and standard regulations. The Policy covers Bank of China Sydney Branch as well as the Bank's wholly owned Australian retail subsidiary, Bank of China (Australia) Limited.
- In terms of the definition in APS330 paragraph 21, the Senior Managers and Material Risk Takers of BOCS and BOCAL are the following:

BOCS

Senior Managers	Material Risk Takers
There are 7 Senior Managers, all of whom are BOCS General Management Office Members. Six of whom are considered Material Risk Takers.	There are 13 Material Risk Takers in addition to 6 of the 7 listed Senior Managers whose activities, individually or collectively may affect the financial soundness of BOCS.

BOCAL

Senior Managers	Material Risk Takers
There are 2 Senior Managers, viz. the Chief Executive Officer and the Chief Risk Officer/Company Secretary, the former being a Material Risk Taker.	There are 15 Material Risk Takers in addition to the two already listed Senior Managers whose activities, individually or collectively may affect the financial soundness of BOCAL.

(b) Design & Structure of Remuneration Processes

- The Bank of China Australian Group Remuneration Policy sets out the components of remuneration; the governance and review mechanism for the remuneration of all employees of Bank of China in Australia; and the incorporation of risk management in the performance management process and job design. The Group Policy is adopted separately by the senior governing bodies of both entities, viz. BOCS General Management and the BOCAL Board of Directors.
- The objective of the Remuneration Policy is to align remuneration management with risk management whilst providing proper structured remuneration and compensation to attract, retain and motivate high quality people to lead, manage and serve the Bank in a competitive environment and in the best interests of all stakeholders.
- The key features of the policy include the governance and review mechanism for remuneration mix of all employees of the Bank's Australian operations in line with the above mentioned objectives, and ensuring that remuneration is adjusted appropriately for the risks undertaken.
- During the year to 31 December, the BOCS General Management and the BOCAL Remuneration Committee have each reviewed the Remuneration Policy with no material changes affected.
- Bank of China adopts a 'Balance Score Card' approach to the performance management of Risk and Financial Control Personnel in relation to the relevant compliance and risk management KPIs applicable to each position.

(c) Accounting for Risk in Remuneration

- Staff covered by the Remuneration Policy are assessed in relation to relevant risks, viz. asset and liability risks, credit risks, market risks, operational risks, reputation risk and, importantly compliance and regulatory risks.

- In implementing remuneration measures, the key risk measures taken into account by the Bank of China Australian Group include the following:
 - ✓ Non-performing Loan balance and ratio;
 - ✓ Securities investment ratio and treasury portfolio limits;
 - ✓ Compliance with applicable market risk, foreign exchange exposure, interest rate risk and liquidity limits;
 - ✓ Internal control and operational risk management limits;
 - ✓ Compliance with legal and regulatory requirements;
 - ✓ Capital adequacy and RAROC;
 - ✓ Impacts to reputational risk.
- Performance against key risk measures applicable to individual staff is reviewed and assessed annually. Any risk deficiencies or breaches of limits or regulatory requirements on the part of any employee in the Group will have a direct bearing upon that employee's remuneration and employment outcomes for the year under review.

(d) Linking Pay to Performance

- The remuneration package for all employees is composed of 'fixed remuneration' and 'variable remuneration'. Fixed remuneration, referred to as 'base salary', is paid monthly and is a fixed amount which is reviewed annually with reference to various factors such as remuneration strategy, market pay trends and existing base salary levels. The fixed remuneration review budget is determined based on the affordability of the Group as well as the performance of the Australian Group, Business Units and individuals during the previous assessment year, factors which are measured in 'Balance Score Card' method adopted by the Bank;
- Variable remuneration is also known as 'short term incentives, annual bonus and long term incentives', which are determined annually in light of the 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 Head Office. Allocation of individual variable remuneration is closely linked to the performance of the Business Unit and the individual employee. Risk factors are fully considered at each level of assessment and related risk measures are clearly stated on all Balance Score Cards.
- The performance of risk & control personnel is assessed by their achievement of their major job responsibilities and is independent from the financial targets of the business they oversee.

(e) Impact of Longer Term Performance on Remuneration

- In order to align variable remuneration with Bank of China Australian Group long-term performance and risk controls and local regulatory requirements (i.e. Banking Executive Accountability Regime), key management personnel's variable remuneration is partially

deferred for a four-year period. Risk assessment factors in the Balance Score Card appear as potential score reduction items. For example, in the instance of zero breach of any risk control requirement, the total score will equal zero and the employee's approved full annual deferred variable remuneration figure will be paid out in the year of deferment.

- Each year the deferred variable remuneration payout percentage depends on the deficiency ratio (reduced score over total score in the risk assessment section) of the individual's risk assessment factors. The lesser the deficiency ratio in the risk factor assessment, the higher the payout percentage of the deferred bonus of the assessment year. Claw-back provisions may apply where prior year failures are detected subsequently.

(f) Forms of Variable Remuneration

- Bank of China Australian Group offers its employees a performance bonus as variable remuneration and is calculated and paid out annually in accordance with the performance assessment result provided by the Head Office.
- Majority of employees' performance bonus is paid fully following the assessment year. Key management personnel's performance bonus is paid 59.9% during the 12 months following the assessment year with the remaining 40.1% deferred for review and payment at the end of the fourth year.

Qualitative Disclosures:

(g) Remuneration Review Meetings

- BOCAL Remuneration Committee met four times in the year to 31 December for the purpose to review fixed and variable remuneration. All remuneration proposals were approved during 2019.
- BOCS General Management Members met four times in the year to 31 December for the purpose to review fixed and variable remuneration. All remuneration proposals were approved during 2019.

(h) Variable Remuneration

- 2 Senior Manager in BOCAL and 15 Material Risk Takers who deliver services to BOCAL have received variable remuneration in the year to 31 December;
- 7 Senior Managers and other 13 Material Risk Takers in BOCS have received variable remuneration in the year to 31 December.

(i) Deferred Remuneration

- There is no reduction value of outstanding deferred remuneration in the year to 31 December due to ex post explicit or implicit adjustments. All risk measurements are met and deficiency ratio is zero.

(j) Quantitative remuneration disclosure table

- Please refer to Table 18A for details of fixed and variable remuneration items of Bank of China Australian Group

Table 18A: Total Value of Remuneration Awards

Table I(a): Total value of remuneration awards for BOCAL senior managers and material risk takers for the 2019 financial year to 31 December

Items	Senior Managers \$'000		Material Risk Takers \$'000	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Fixed remuneration				
• Cash-based (non-deferred)	227.23	230.59	875.84	729.32
• Other (non-deferred)	54.03	59.22	280.74	200.93
Variable remuneration				
• Cash-based (non-deferred)	76.86	95.38	543.02	312.75
• Cash-based (deferred)	51.46	63.85	-	-
• Other	-	-	-	-

Table I: Total value of remuneration awards for BOCS senior managers and material risk takers for the 2019 financial year to 31 December

Items	Senior Managers \$'000		Material Risk Takers \$'000	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Fixed remuneration				
• Cash-based (non-deferred)	2,032.35	2,521.07	3,432.30	3,166.32
• Other (non-deferred)	428.16	647.43	1,041.61	829.24
Variable remuneration				
• Cash-based (non-deferred)	649.42	1,042.85	2,311.60	1,568.76
• Cash-based (deferred)	434.75	698.13	-	-
• Other	-	-	-	-

Table II(a): Summary of Deferred Remuneration in BOCAL

Items	Senior Managers \$'000		Material Risk Takers \$'000	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Deferred remuneration				
• Cash-based variable	168.08	184.19	-	-
• Other (non-deferred)	-	-	-	-
Total outstanding remuneration (deferred)		-		
Total vested outstanding remuneration	81.56	55.26	-	-
Total amount of reductions due to explicit adjustments	-	-	-	-
Total amount of reductions due to implicit adjustments	-	-	-	-

Table II: Summary of Deferred Remuneration in BOCS

Items	Senior Managers \$'000		Material Risk Takers \$'000	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Deferred remuneration				
• Cash-based variable	1,412.17	2,013.82	-	-
• Other (non-deferred)	-	-	-	-
Total outstanding remuneration (deferred)		-		
Total vested outstanding remuneration	686.22	604.13	-	-
Total amount of reductions due to explicit adjustments	-	-	-	-
Total amount of reductions due to implicit adjustments	-	-	-	-



BANK OF CHINA