



BASEL Pillar 3

Annual Remuneration Disclosures under APS 330

As at 31 December 2020

Bank of China Australian Group Operations

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Pillar 3 Annual Remuneration Disclosures as at 31 December 2020

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 outsourcing 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. General Management of the Bank of China Ltd Sydney Branch ("BOCS") is responsible for the oversight of remuneration arrangements for all of 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 the 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 ("Remuneration Policy") is founded upon the Group's remuneration system and customized to be in line with the Australian local market practice and standard. The Remuneration Policy covers BOCS staff who deliver services to the Bank's wholly owned Australian retail subsidiary, BOCAL.
- 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 16 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 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 Remuneration 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 Remuneration Policy are to ensure that the governance and review mechanism for remuneration of all employees of the Bank's Australian operations are consistent with the above-mentioned objectives, and that remuneration is adjusted appropriately for the risks undertaken.
- During the year to 31 December 2020, 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 balanced score card approach to the performance management of risk and financial control personnel by applying the relevant compliance and risk management key performance indicators applicable to each position.

(c) Accounting for Risk in Remuneration

- Staff covered by the Remuneration Policy are assessed by relating 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 but are not limited to 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 RAROC¹;
 - ✓ Impacts to reputational risk.
- Performance against key risk measures applicable to individual staff is reviewed and assessed annually. Any risk deficiencies (including materially adverse non-financial risk outcomes), 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, and 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 (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.

¹ Risk-adjusted return on capital

- 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's 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.
- 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 2020 for the purpose of reviewing fixed and variable remuneration. All remuneration proposals were approved during 2020.
- BOCS General Management members met two times in the year to 31 December 2020 for the purpose of reviewing fixed and variable remuneration. All remuneration proposals were approved during 2020.

(h) Variable Remuneration

- 2 Senior Manager in BOCAL and 16 Material Risk Takers who deliver services to BOCAL have received variable remuneration in the year to 31 December 2020;
- 7 Senior Managers and other 13 Material Risk Takers in BOCS have received variable remuneration in the year to 31 December 2020.

(i) Deferred Remuneration

- There is no reduction value of outstanding deferred remuneration in the year to 31 December 2020 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 2020 financial year to 31 December

Items	Senior Managers \$'000		Material Risk Takers \$'000	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Fixed remuneration				
• Cash-based (non-deferred)	343.26	227.23	972.34	875.84
• Other (non-deferred)	75.02	54.03	257.01	280.74
Variable remuneration				
• Cash-based (non-deferred)	104.97	76.86	338.21	543.02
• Cash-based (deferred)	70.28	51.46	-	-
• Other	-	-	-	-

Table I: Total value of remuneration awards for BOCS senior managers and material risk takers for the 2020 financial year to 31 December

Items	Senior Managers \$'000		Material Risk Takers \$'000	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Fixed remuneration				
• Cash-based (non-deferred)	2,145.60	2,032.35	4,099.88	3,432.30
• Other (non-deferred)	407.41	428.16	1,123.55	1,041.61
Variable remuneration				
• Cash-based (non-deferred)	637.54	649.42	1,617.55	2,311.60
• Cash-based (deferred)	426.80	434.75	-	-
• Other	-	-	-	-

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

Items	Senior Managers \$'000		Material Risk Takers \$'000	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Deferred remuneration				
• Cash-based variable	170.66	168.08	-	-
• Other (non-deferred)	-	-	-	-
Total outstanding remuneration (deferred)		-		
Total vested outstanding remuneration	95.89	81.56	-	-
Total amount of reductions due to explicit	-	-	-	-
Total amount of reductions due to implicit	-	-	-	-

Table II: Summary of Deferred Remuneration in BOCS

Items	Senior Managers \$'000		Material Risk Takers \$'000	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Deferred remuneration				
• Cash-based variable	1,192.76	1,412.17	-	-
• Other (non-deferred)	-	-	-	-
Total outstanding remuneration (deferred)		-		
Total vested outstanding remuneration	674.34	686.22	-	-
Total amount of reductions due to explicit	-	-	-	-
Total amount of reductions due to implicit	-	-	-	-