

## Un-audited supplementary financial information

### Disclosure on Remuneration for CG-5 Guideline on a Sound Remuneration System issued by the Hong Kong Monetary Authority

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the Hong Kong Monetary Authority, the following disclosures are made:

- (a) Aggregate quantitative information on the remuneration for the Bank's senior management and key personnel for the year ended 31 December 2010 is set out below:

Number of Beneficiaries	16
	HKD'000
Fixed Remuneration	28,643
Variable Remuneration (Cash)	10,178
Deferred Remuneration (Cash) *	
- Vested	0
- Unvested	2,550
Total	<u>41,371</u>

\* The deferred remuneration relates to the 2010 variable remuneration only.

No senior management or key personnel has been awarded with new sign-on or severance payment for the financial year 2010.

- (b) The design and implementation of the remuneration system:

#### General Principles

The Remuneration and Appraisal Committee ("Committee") is established with specific terms of reference and the majority of its members are independent non-executive directors. The Committee is delegated by the Board with the authority and duties to design and review the Bank's remuneration policy and to monitor its implementation. The Committee is also responsible for reviewing and approving the remuneration of the Bank's senior management and key personnel.

The risk control functions of the Bank conduct regular review (at least annually), independent of the Bank Management, on the adequacy and effectiveness of the Bank's remuneration policy and its implementation to ensure that it is consistent with regulatory requirements and promote effective risk management.

The remuneration policy of the Bank is designed to encourage employee behavior that supports the Bank's overall business goals and objectives, long-term financial soundness and risk management framework. It aims to create long-term value for the Bank and to align the remuneration of employees with the Bank's profitability, time horizon of risks and capital adequacy.

## **Remuneration Structure**

The remuneration of employees is composed of an appropriate mix of fixed and variable remuneration. Fixed remuneration includes salaries, allowances, year-end payments and pension contributions. Variable remuneration refers to cash bonus payments and is awarded based on the performance of the Bank, units and individual employees. The fixed remuneration is set at a level which is sufficient to attract and retain employees with relevant skills, knowledge and expertise to discharge their functions while the award of variable remuneration does not induce excessive risk taking. The proportion of variable remuneration to total remuneration generally increases in line with the seniority, roles, responsibilities and activities of employees within the Bank.

## **Performance Measurements and the Award of Variable Remuneration**

Pre-determined performance criteria including both financial and non-financial factors are used to assess the performance of individual employees and support the award of variable remuneration. Financial factors include quantitative measures such as profit, revenue, turnover or volume. Non-financial factors include criteria such as adherence to risk management policies, compliance with legal/ regulatory/ ethical standards, result of internal audit reviews, adherence to corporate values and customer satisfaction. The non-financial factors constitute a significant part of employees' overall performance measurement. The size and allocation of variable remuneration take into account of the full range of current and potential risks associated with the relevant employees' activities. In general, both quantitative measures and qualitative assessments play vital roles in determining risk adjustments and assessments for all types of risks.

## **Deferral Arrangements**

A proportion of the employees' variable remuneration is required to be deferred and be realized over a timeframe if the payout amount reaches a certain prescribed threshold so as to allow their performance and the associated risks to be observed and validated over a sufficient period of time. The award of deferred variable remuneration is subject to a 3-year vesting period and pre-defined vesting conditions. The payment of deferred variable remuneration will be made gradually over the vesting period and no faster than on a pro-rata basis.

In circumstances where it is later established that any performance measurement was based on data which is later proven to have been manifestly misstated, or it is later established that there has been fraud or other malfeasance on the part of the relevant employees, or violations of internal control policies, the unvested portion of deferred variable remuneration will be forfeited or claw-back.

30 June 2011