

Supplementary information of Disclosure on Remuneration for Guideline on a Sound Remuneration System issued by the Hong Kong Monetary Authority

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

(a) Remuneration awarded to the Senior Management and Key Personnel for 2017

For the purpose of disclosure, the Senior Management and Key Personnel mentioned in this section are defined according to Guideline on a Sound Remuneration System issued by the Hong Kong Monetary Authority.

Senior Management are Management Committee members including Chief Executive Officer and General Managers, who are responsible for oversight of the firm-wide strategy or activities or those of the material business lines.

Key Personnel are employees whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the Bank, including Deputy General Managers, Chief Financial Officer, Chief Information Officer & Chief Operating Officer, Chief Risk Officer*, Assistant General Managers, and business Department/Subsidiary Heads directly report to General Managers.

* Chief Risk Officer's role is performed by General Manager.

(i) Remuneration awarded

	2017 HKD'000	2016 HKD'000
<u>Senior Management</u>		
Non-deferred		
Fixed Remuneration		
Cash	15,269	14,023
Variable Remuneration		
Cash	5,400	3,940
Deferred		
Fixed Remuneration		
Cash	0	0
Variable Remuneration		
Cash	5,250	3,940
<u>Key Personnel</u>		
Non-deferred		
Fixed Remuneration		
Cash	26,630	24,335
Variable Remuneration		
Cash	9,022	8,120
Deferred		
Fixed Remuneration		
Cash	0	0
Variable Remuneration		
Cash	5,608	6,089

(ii) Deferred remuneration outstanding

	2017 HKD'000	2016 HKD'000
<u>Senior Management</u>		
Deferred Remuneration		
Vested	2,940	3,087
Unvested	8,690	7,295
	7,295	6,442
Balance b/f	7,295	6,442
Awarded	5,250	3,940
Paid out	(2,940)	(3,087)
Forfeited due to resignation	(915)	0
Reduced through performance adjustments	0	0
Balance c/f	8,690	7,295
<u>Key Personnel</u>		
Deferred Remuneration		
Vested	5,790	6,135
Unvested	11,465	11,647
	11,647	13,985
Balance b/f	11,647	13,985
Awarded	5,608	6,089
Paid out	(5,790)	(6,135)
Forfeited due to resignation	0	(2,292)
Reduced through performance adjustments	0	0
Balance c/f	11,465	11,647

Remarks:

- The remuneration above included those of 5 members of Senior Management & 14 members of Key Personnel for 2017 and those of 4 members of Senior Management & 17 members of Key Personnel for 2016 respectively. The remuneration was approved in the Remuneration and Appraisal Committee meeting held once a year.
- No guaranteed bonuses, sign-on awards, or severance payments were made to the Senior Management or Key Personnel in 2017 and 2016.

(b) Disclosure of remuneration policy**General Principles**

The Remuneration and Appraisal Committee (“Committee”) is established with specific terms of reference and chaired by an independent non-executive director with majority of its members (over 50%) are independent non-executive directors. The Committee is delegated by the Board with the authority and duties to study, review and approve the Bank’s remuneration policy and to monitor its implementation in the Bank (including its subsidiaries and overseas branches). 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. Risk control personnel are compensated in a manner that is independent of the business areas they oversee, aligned with their performance objectives and commensurate their respective roles in the Bank.

The remuneration policy of the Bank is designed to encourage employee behavior that supports the Bank's overall business goals and objectives, long-terms 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 the event of resignation, or 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.

28 December 2018