

## DISCLOSURE ON REMUNERATION FOR YEAR 2016

### INTRODUCTION

In accordance with the most updated "Guideline on a Sound Remuneration System" (the "**Guideline**") issued by the Hong Kong Monetary Authority, Industrial and Commercial Bank of China (Asia) Limited (the "**Bank**") has prepared its arrangement for bonus distribution in respect of year 2016 according to its remuneration policy.

The remuneration policy is applicable to the Bank's employees in Hong Kong and covers all categories of employees including senior management, proprietary traders and dealers, marketing and sales, loan officers, risk management, financial control and compliance personnel.

In general, risk factors which have been considered in the performance rating of staff affect the bonus for him/her. Also, the current and future risk of the Bank will be considered by the Remuneration Committee in the determination of overall bonus to be allocated.

### GENERAL PRINCIPLES

Remuneration should facilitate the delivery of long term financial stability for the business and promote sound risk management principles. Risk control functions have played an important role in the remuneration related procedures and decisions of the Bank. The preparation of the remuneration policy is initiated by Human Resources Department after consultation the risk controls units including risk management, legal and compliance and etc. prior to submission to the Remuneration Committee delegated by the Board of Directors for approval. The Remuneration Committee reviews the remuneration policy at least annually and may at its discretion seek information and recommendations from external consultants as appropriate. In 2016, the Remuneration Committee has not sought advice from external consultant on remuneration matters. The aim of the remuneration policy and the arrangement is to enable the Bank to maintain a fair, equitable and market-competitive remunerative structure for its employees based on the Bank's performance and industry practice, and is designed to encourage employee behaviour that supports the institution's risk tolerance, risk management, business strategies and long-term financial soundness of the Bank. Total bonus is funded based on the Bank's overall performance, after factoring in the financial, non-financial and other long-term strategic measures, as well as risk-adjusted elements. Legacy losses realized (ex post) in the performance year should be taken into consideration to determine the bonus pool created and the deferral payout. The remuneration of staff in risk control functions are determined in accordance with their performance objectives and are independent of the performance of the business units which they oversee. The performance factors in carrying out their core job responsibilities under their respective job functions are

assessed in the performance appraisals, and appropriate remuneration will be recommended based on the appraisal result.

When deciding the remuneration measures, the Bank considers market risk, credit risk, liquidity risk and operational risk and also takes into account certain key risk factors such as its asset quality, liquidity position, business and economic conditions, respective staff performance, the overall business results as well as long-term financial position. Reports on these risk factors are used for identification of current and future risks. The Remuneration Committee sets the target bonus pool against profit mechanism of the Bank in the first half of each year. The Bank reviews its business and risk management performance and reduces the bonus pool if the Bank's business objectives are not achieved, or if there is deficiency/failure in risk and compliance performance, or when it is necessary to protect the financial soundness of the Bank. There is no change of these mechanism and measures over the past years and it continues to apply in 2016.

## **REMUNERATION COMMITTEE**

A Remuneration Committee has been set up with specific terms of reference and delegated with the authority and duties which include, amongst others, making recommendations to the board of directors (the "**Board**") on the Bank's policy and structure for remuneration of all directors, senior management (who are responsible for overseeing the Bank's business strategy or activities or those of the Bank's material business duties) and key personnel (whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposure on behalf of the Bank) of the Bank, determining the specific remuneration packages of all executive directors, senior management and key personnel, and reviewing and approving performance-based remuneration of directors, senior management and key personnel of the Bank by reference to corporate goals and objectives as determined by the Board from time to time. Factors such as business performance of the Bank and emoluments paid by comparable banks will be considered. No director will be involved in deciding his own remuneration. The Remuneration Committee will also review the remuneration policy of other employees.

The terms of reference require that the Remuneration Committee shall comprise not less than 3 independent non-executive directors, and most of the members of the Committee (including Chairman of Remuneration Committee) should be an independent non-executive director. Chairman of Remuneration Committee is appointed by the Board of Directors. Currently, members of the Remuneration Committee are Mr. Yuen Kam Ho, George (independent non-executive director), Mr. Tsui Yiu Wa, Alec (independent non-executive director), Mr. Ma Xiangjun (non-executive director) and Mr. Wu Jie Si (independent non-executive director). Mr. Yuen Kam Ho, George is the chairman of the Remuneration Committee.

The Remuneration Committee has held 2 meetings 2 written resolutions and 1 report circulation in the year of 2016.

During 2016, the remuneration policy has been reviewed and approved by the Remuneration Committee, and the major changes to the remuneration policy were as follows:

- i) Updated the job roles in the Employee Categorization such as Senior Management, Key Personnel and Risk Control Personnel.
- ii) Reviewed the quantum and vesting period conditions under the Deferral Policy.

## **REMUNERATION STRUCTURE**

The remuneration package is a combination of fixed and variable remuneration in line with the seniority, role, responsibilities and activities of an employee within the Group. The variable remuneration is awarded in the form of cash.

Fixed remuneration includes annual salary, allowance and pension contribution while variable remuneration refers to discretionary bonus and other variable income. Variable remuneration takes into account the overall performance of the Bank and individual business units, while individual performance is measured against the established key performance indicators, adherence to risk management policies and compliance with legal and regulatory requirements. For top level business lines, performance criteria and metrics taken into consideration include key financial indicators such as earnings, loan and deposit growth, impaired loans ratio and etc.

The Bank maintains a performance evaluation scheme to ensure individual staff performance would be adequately and effectively evaluated. The award of variable remuneration depends on the fulfilment of budgeted income and business objectives, peer group performance comparison and risk control factors. These criteria include both financial and non-financial factors. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Bank as a whole, and the contribution of business units and individual employee as well. The non-financial metrics capture the performance on qualitative aspects such as the compliance with risk management policies, adherence to legal, regulatory and ethical standards, customer satisfaction and etc. The performance objectives of staff and annual performance appraisal exercise take into account these factors. Variable remuneration is directly related to performance, and poor performance (including both financial and non-financial) will result in a reduction or elimination of variable remuneration.

## **CHIEF EXECUTIVE, SENIOR MANAGEMENT AND KEY PERSONNEL COMPENSATION**

The Remuneration Committee annually reviews the remuneration packages of the Chief Executive, members of the senior management and key personnel. The aggregate payout of the Chief Executive, senior management and key personnel for 2016 is shown in the section “Remuneration for the Chief Executive Officer, Senior Management and Key Personnel” in accordance with the disclosure requirement of 3.2.3 of the Guideline. In the year of 2016, the senior management (9 Persons) of the Bank includes: Chief Executive Officer, Deputy Chief Executives and Assistant Chief Executive. Key Personnel (27 Persons) includes Chief Audit Officer, Chief Corporate Banking Officer, Chief Financial Officer & Chief Operation Officer, Chief Executive and Deputy Chief Executive of Chinese Mercantile Bank, Chief Executive and Deputy Chief Executive of ICBC (Asia) Investment Management Co. Ltd., Head and Deputy Department Head of Global Markets and Trading Department, Chief Traders (i.e. Head of Desks with dealing activities) and Head and Deputy Department Head of Legal and Compliance Department.

### **DEFERMENT OF VARIABLE REMUNERATION**

The award of variable remuneration to all employees in the Bank, including the Chief Executive, members of the senior management, and key personnel is subject to deferral mechanism. The key deferral principles are:

- deferral applies when the amount of performance-based variable remuneration is considered "significant" according to the remuneration policy of the Bank;
- deferral amount needs to be "meaningful" according to the remuneration policy of the Bank;
- the period of deferred performance-based variable remuneration is no less than 3 years and aligned the nature and risks of business, activities undertaken by the employee and the time frame during which the risks from the activities are likely to be realised.

In addition, the deferral remuneration is subject to forfeiture/claw-back in circumstances where it is later established that any performance measurement for a particular year has been manifestly misstated, or it is later established that the relevant employee has committed fraud or other malfeasance, or a violation of any regulatory requirements or the Bank's policy or procedures, or there has been a significant financial performance deterioration of the Bank, i.e. financial loss, or significant variation in the economic capital or in the qualitative valuation of risk.

The rationale and justification for any forfeiture/claw-back imposed must be recorded and retained for 7 years.

### **POLICY REVIEW**

The remuneration policy shall be reviewed at intervals to be determined by the Remuneration Committee. The policy shall at minimum be reviewed annually from the effective date.

## REMUNERATION FOR THE CHIEF EXECUTIVE, SENIOR MANAGEMENT AND KEY PERSONNEL

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the Hong Kong Monetary Authority, details of the remuneration for the Chief Executive, Senior Management and Key Personnel of the Group for the year are as follows:

### A) Remuneration awarded for the year

#### (i) Chief Executive & Senior Management <sup>Note 1</sup>

Aggregate amount of remuneration during the year, split into fixed and variable remuneration, is listed below:

Amount (HK\$ '000)	<u>2016 (9 employees)</u>		<u>2015 (9 employees)</u>	
	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration				
Cash	21,034	0	18,320	0
Variable remuneration				
Cash	6,164	2,284	5,142	1,301

- <sup>Note 1</sup>
- (1) One existing Senior Management is newly appointed in the interim year 2016 and his remuneration is disclosed on a pro-rata basis according to the period he assumes such senior management role within the year.
  - (2) Two existing Senior Management are ceased appointment in the interim year 2016 and one of their remuneration is disclosed on a pro-rata basis according to the period he assumes such senior management role within the year.
  - (3) The disclosure amount refers to the remuneration earned for period of being a Chief Executive or Senior Management during the year. If the assignment is not in a full year, the amount will be calculated on a pro-rata basis.

Aggregate amount of deferred variable remuneration, split into (i) vested and paid during the year, (ii) reduced through performance adjustments during the year and (iii) outstanding and unvested at the year-end, is listed below:

Amount (HK\$ '000)	<u>2016</u>		<u>2015</u>	
	Awarded for Performance Year 2016	Awarded for Prior Performance Years	Awarded for Performance Year 2015	Awarded for Prior Performance Years
Vested and paid during the year				
Cash	0	-1,614	0	-1,824
Reduced through performance adjustments during the year				
Cash	0	0	0	-485
Outstanding and unvested at the year-end				
Cash	2,284	1,614	1,301	1,993

Remark: Actual deferral is calculated based on the full amount of variable remuneration granted.

(ii) Key Personnel <sup>Note 2</sup>

Aggregate amount of remuneration during the year, split into fixed and variable remuneration, is listed below:

Amount (HK\$ '000)	<u>2016 (27 employees)</u>		<u>2015 (15 employees)</u>	
	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration				
Cash	26,515	0	18,934	0
Variable remuneration				
Cash	7,306	3,845	3,983	1,215

Note 2 (1) Thirteen existing Key Personnel are newly appointed in the interim year 2016 and eight of their remunerations are disclosed on a pro-rata basis according to the period they assume such key personnel role within the year.

(2) Seven existing Key Personnel are ceased appointments in the interim year 2016 and four of their remunerations are disclosed on a pro-rata basis according to the period they assume such key personnel role within the year.

(3) The disclosure amount refers to the remuneration earned for period of being a Key Personnel during the year. If the assignment is not in a full year, the amount will be calculated on a pro-rata basis.

Aggregate amount of deferred variable remuneration, split into (i) vested and paid during the year, (ii) reduced through performance adjustments during the year and (iii) outstanding and unvested at the year-end, is listed below:

Amount (HK\$ '000)	<u>2016</u>		<u>2015</u>	
	Awarded for Performance Year 2016	Awarded for Prior Performance Years	Awarded for Performance Year 2015	Awarded for Prior Performance Years
Vested and paid during the year				
Cash	0	-1,102	0	-208
Reduced through performance adjustments during the year				
Cash	0	-23	0	0
Outstanding and unvested at the year-end				
Cash	3,845	1,165	1,215	1,007

Remark: Actual deferral is calculated based on the full amount of variable remuneration granted.

Fixed remuneration included employee's annual salary, allowance and pension contributions.

Variable remuneration comprised of cash bonus payment only.

Deferred remuneration comprised cash bonus depend on pre-defined vesting, service and/or performance conditions. If certain conditions are not fulfilled during the vested period, all or part of the unvested portion of the deferred remuneration should be foregone.

An amount of deferred variable remuneration for HK\$23,000 has been forfeited during the year of 2016. (2015: HK\$485,000).

No guaranteed or sign-on bonus and severance payments were awarded or made to the Chief Executive, senior management and key personnel in 2015 and 2016.