

## CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED

### UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014

(Expressed in thousands of Hong Kong dollars, unless otherwise stated)

#### **Disclosure on remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA**

The Board has delegated power to the Nomination and Remuneration Committee to oversee the design and operation of the Bank's remuneration system.

The Nomination and Remuneration Committee consists of not less than three members, majority of whom should be independent non-executive Directors.

The major responsibilities of the Committee include but not limited to:

- Making recommendations of remuneration packages of the Senior Management <sup>Note 1</sup> and the Key Personnel <sup>Note 2</sup>,
- Making recommendations to the Board on the Bank's remuneration structure, annual salary adjustment, annual performance bonus and long term incentive, if applicable, and
- Conducting regular review of the Bank's remuneration system and its operation.

The Committee takes into account of the Bank's risk tolerance, risk management framework and long term financial soundness in determining the Bank's remuneration policy. The policy advocates pay-for-performance philosophy and internal equity to encourage achievement of results and desirable behaviors in support of the Bank's long term goals and strategies. The policy applies to all employees employed by the Bank. In 2014, the Committee held 4 meetings in total. Remuneration to the Committee members is disclosed in page 3.

#### **Remuneration Structure**

The remuneration packages of employees focus on "total cash remuneration" comprising of fixed salary and variable remuneration. Following the total reward principle and prevailing market practices, payments of remuneration are required to follow the policy guidelines to maintain an appropriate balance that the fixed portion is sufficient to attract and retain employees with relevant skills and the variable portion will not effectively become "non-discretionary" or induce excessive risk taking. The proportion of variable remuneration shall vary according to roles and responsibilities, and is usually higher for employees who are higher in seniority.

Fixed remuneration refers to base salary, fixed allowances and year-end guaranteed pay (if applicable). Variable remuneration, comprising mainly cash bonus payments, sales incentives and/or long term incentives (if applicable), is awarded based on overall performance of the Bank, the relevant business units and the employee, taking into account the full range of current and

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<sup>Note 1</sup> Senior Management refers to employees at Deputy Chief Executive level and above including the Chief Executive Officer. The Bank had 9 employees being classified as Senior Management as at the year ended 31 December 2014.

<sup>Note 2</sup> Key Personnel refers to individual 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. The Bank had 3 employees being classified as Key Personnel as at the year ended 31 December 2014.

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potential short-term and longer-term risks connected with the activities of employees which may affect the performance of the Bank. Variable remuneration is awarded in form of cash currently.

#### **Performance Management and Allocation of Variable Remuneration**

Performance of the Bank will be evaluated against pre-defined and assessable financial and non-financial targets, including but not limited to the Bank's performance on risk management perspectives. Based on the Bank level targets, each individual Division will set up its performance indicators covering financial, non-financial, risk management and compliance targets. Major types of risks such as credit risks, market risks, liquidity and operational risks are taken into consideration during the evaluation process.

Performance of individual employees will be assessed against a number of pre-defined and measurable performance goals in support of the Bank's targets. The goals are determined according to the job responsibilities, areas of contribution covering both financial and non-financial factors, and the full adherence to the code of conduct, internal control policy, compliance standard and risk management requirements. The overall and balanced quality of an employee's performance is therefore measured and determined by not only financial achievement, but also non-financial indicators as an integral part of the performance management system. Stringent compliance standard and risk management requirement has remained as a key and mandatory element in the performance management system during the year of 2014. For employees within risk control functions, they have to achieve their specific divisional and individual key performance indicators independent of the performance of the business areas which they oversee.

Bank-wide variable remuneration level will be determined with reference to the result of the Bank's overall performance evaluation at the end of the year. Failure to achieve financial and non-financial targets will result in reduction in variable remuneration pool at the Bank level. Award of variable remuneration of individual employee is linked to the performance of the Bank as a whole, the relevant Division and the employee concerned. Employees who fail to achieve satisfactory performance results as described above will be subject to reduction or elimination of variable remuneration.

In assessing the remuneration packages of the Chief Executive Officer, Senior Management and Key Personnel of the Bank, the Nomination and Remuneration Committee has the delegated responsibility to review and recommend the total remuneration inclusive of the variable components in alignment with the performance management system described above.

#### **Payout and Deferral of Variable Remuneration**

The award of variable remuneration is subject to deferment in accordance with the remuneration policy as approved by the Nomination and Remuneration Committee and the Board of the Bank. In general, the proportion of variable remuneration subject to deferment will increase in line with seniority, scope of responsibilities and in proportionate with the amount of bonus as compared to the fixed remuneration.

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The award of deferred remuneration is subject to a minimum vesting period and pre-defined vesting conditions in accordance with the remuneration policy. The vesting period shall be up to three years on a gradual manner depending on the amount of the variable remuneration, and aligned to the nature and risks of business, activities undertaken by employees and the time horizon of the risks from the activities. Payout of deferral may be subject to forfeiture in case of significant performance deterioration at the Bank, business unit or individual level, as appropriate. Early payment of deferral amount is normally not allowed and the unvested payment will be forfeited if the employee tenders resignation from the Bank or is terminated by the Bank before the normal payout date. Any exception to the rules is subject to approval by the Board, Nomination and Remuneration Committee or Chief Executive Officer as defined in the remuneration policy.

Unvested deferred remuneration shall be subject to “claw-back” if it is later established that any performance measurement was based on data which is subsequently proven to have been manifestly misstated, or it is later established that there has been fraud or other malfeasance on the part of the employee or violation of the Bank’s internal control policies/ procedures. Exception to claw-back shall be subject to approval by the Board, Nomination and Remuneration Committee or Chief Executive Officer as defined in the remuneration policy.

#### **On-going Monitoring of the Remuneration System**

A multi-level monitoring mechanism shall be in place to ensure the Policy is well respected and followed appropriately.

The Board and the Nomination and Remuneration Committee shall provide oversight of the overall remuneration matters of the Bank to be consistent with its culture, strategy, risk tolerance and control environment. The Audit function of the Bank or an external consultant appointed by the Bank shall conduct regular review (at least annually), independent of management, on the adequacy and effectiveness of the remuneration policy as well as compliance of the operations of the Bank’s remuneration system. Results of the review together with any material weaknesses identified shall be submitted to the Nomination and Remuneration Committee. Involvement and inputs from risk control, compliance, internal control, finance and human resources shall be solicited as appropriate in the design and implementation of the remuneration policy and systems, with specific regard to risk considerations at various levels of the Bank.

In 2014, KPMG was appointed as the Bank’s external consultant to provide professional services in relation to the assessment of the Bank’s remuneration system against the principles as outlined in the Supervisory Policy Manual CG-5 “Guidelines on a Sound Remuneration System” which was issued by the Hong Kong Monetary Authority. The assessment was conducted independent of management, and the result of the review has been submitted to the Board of Directors and the Nomination and Remuneration Committee. Based on the review result, no variation to the Supervisory Policy Manual CG-5 was identified.

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### Scale of Remuneration for Chairman and Member of the Nomination and Remuneration Committee <sup>Note3</sup>

	2014	2013
Number of meetings held	4	3
Scale of Remuneration:		
• Chairman	HK\$220,000*	HK\$220,000*
• Member	HK\$150,000**	HK\$150,000**

<sup>Note3</sup> No Director's fee is payable to Directors who are full time employees of the CCB Group and its subsidiaries.

\* Total emolument as Director and Chairman of Nomination and Remuneration Committee.

\*\* Total emolument as Director, and Member of Nomination and Remuneration Committee (for 2013 and 2014) and Audit Committee (for 2013 and the period of Jan to May 2014).

### Remuneration of Senior Management & Key Personnel

Total value of remuneration awards for the financial year

	2014		2013	
	Non-deferred HK\$	Deferred HK\$	Non-deferred HK\$	Deferred HK\$
<b>(A) Senior management</b>				
<b>Fixed remuneration</b>				
- Cash based	24,631	-	21,603	-
<b>Variable remuneration</b>				
- Cash based	7,110	2,125	5,835	2,022
<b>(B) Key personnel</b>				
<b>Fixed remuneration</b>				
- Cash based	4,363	-	4,485	-
<b>Variable remuneration</b>				
- Cash based	2,139	605	2,209	65

Outstanding deferred remunerations at the end of the year

	2014 (include award for performance year 2014)		2013 (include award for performance year 2013)	
	Vested HK\$	Unvested HK\$	Vested HK\$	Unvested HK\$
<b>(A) Senior management</b>				
- Cash based	-	5,563	-	6,218
<b>(B) Key personnel</b>				
- Cash based	-	670	-	349

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#### Employees' exposures to implicit and explicit adjustments of deferred remuneration and retained remunerations

	2014		2013	
	Senior management HK\$	Key personnel HK\$	Senior management HK\$	Key personnel HK\$
Total outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments	5,563	670	6,218	349
Total reductions during the financial year due to ex post <u>explicit</u> adjustments	199	64	-	-
Total reductions during the financial year due to ex post <u>implicit</u> adjustments	-	-	-	-
Total deferred remuneration paid out during the financial year	2,581	220	1,928	145

Note<sup>4</sup> No Senior Management and Key Personnel has been awarded or paid any guaranteed bonus, sign-on bonus or severance payment during 2013 and 2014.