

CEO SPECIAL REPORT

**Asia Pacific banks take  
a stance on CEO pay**

Pay is down, while performance-  
based evaluation is up

# Compensation combat, combat compensation

**The search for a proper balance of risk and reward is on;  
some of the answers may be found at Asia Pacific banks**

**By Peter Hoflich**



No issue has been more contentious since the start of the financial crisis than executive compensation. While banks with giant holes in their balance sheets have taken billions of dollars in government money, there has arguably been more focus on the human element of finding someone to blame. This has led to a money trail that has tracked the millions that have gone to the banks' top managers—believed by many to be completely undeserved and, like the billions spend on investments gone wrong, quite possibly never to be seen again. Heads of state have weighed in on the issue, and it has tainted nearly every event of the past year. For example, the acquisition by Bank of America (BOA) of Merrill Lynch has been soured by the topic, which claimed first the head of Merrill Lynch CEO (and BOA CEO-apparent) John Thain over the topic of guaranteed bonuses to Merrill Lynch staff, and then eight months later BOA CEO Ken Lewis himself. But despite

the backlash, no one has been found criminally liable, and awards and bonuses of years past are, quite possibly, as good as money in the bank (although executives at AIG, RBS and UBS have given in to pressure to return monies received).

What has been most sharply criticised in the financial services business has been the balance of risk and reward: how senior bankers have been paid to manage overall bank strategies that have failed, while also overseeing minions who were rewarded to take risks with other people's money at no threat to themselves. Banks, which should have been experts at understanding risk, were caught off guard by the calamitous market movements when they herded into risk assets that they hadn't done proper due diligence on. The view is that they should not be rewarded for this, despite the bonus culture that had become the norm.

In order to regroup and rebuild, banks have found themselves in the awkward position of rewarding the participants in their failed business models with retention bonuses, or attracting new talent with large guaranteed bonuses. The large salaries that are being paid to the new CEOs of accident-prone RBS and AIG are a similarly difficult issue, but their remuneration falls into another, equally contentious category as hardship duty rather than undeserved rewards of rushing recklessly, foolhardily into risky investments. While they may not be “at fault” for their institutions’ failings, they are still expected by many to live as frugally as any penitent—or the hangdog executives of the many struggling institutions that will have to live off of the bonuses of years past as they will receive no salary or bonus in 2009.

The situation in Asia is very different from that of western markets. While nearly all banks in the US and Europe saw large losses in 2008 and several quarters of 2009, very few Asia Pacific banks outside of Japan and Taiwan have found themselves declaring even quarterly losses. Similarly, only a handful of small Asia Pacific banks have had to seek government support—no more, arguably, than might need to be rescued even in normal times—while banks big and small in the developed markets of the US and Europe would have been crushed without it.

### Consumers of capital

The Asian Banker first published a ranking of the 50 best-paid CEOs (or their equivalents) in 2007. At that time, the listings were dominated by Australian banks, which held seven of the top 10 positions, led by then-CEO of Macquarie Bank Alan Moss, who took home \$15 million, 96.8% of which was performance-based. With 10 banks in the listing, all of which ranked in the top 20, Australian banks typically represented four of the top 10 for the report’s other rankings, which include performance-based remuneration as a percentage of total remuneration, and the CEO remuneration as a percentage of their bank’s net profits, total staff remuneration, and average staff remuneration.

In this year’s ranking, the Australian banks still have seven of the top ten highest-paid CEOs, but Macquarie Bank’s current CEO Nicholas Moore has fallen to position seven—largely through the investment bank’s less than stellar profit of \$803 million in 2008, down from \$1.66 billion in 2007 and \$1.35 billion in 2006. His performance-based remuneration as a percentage of his total pay is still the highest of all of his peers at 91.8%, albeit down slightly from that of his predecessor’s. Banks in Southeast Asia seem to have caught the performance-based bug; Malaysia’s largest lender Maybank, for example, in 2007 paid 52.1% of its former CEO Amirsham Aziz’s remuneration based on the bank’s performance, while new CEO Abdul Wahid Omar now counts on it for 80.3% of his reward.

In terms of performance-based remuneration as a percentage of total remuneration, not much has changed, with the top 20 banks giving a range of 51.4% to 92.6% for performance,

## Rebuilding trust and confidence

Wee Cho Yaw, Chairman of UOB Group

As members of the banking fraternity, all of us must urgently rebuild public trust and confidence. I would suggest a review of the current compensation framework which encourages greater risk taking for short-term gains.

Because financial rewards are based on short-term targets and profitability, there is an insatiable urge to derive greater profits every year at the expense of longer-term downside risks. There is, therefore, a need to factor in attendant risks in the compensation system.

Going forward, there is a need for bankers to re-visit the primary roles and functions of banks. Shareholders’ funds generally only comprise 10% of a bank’s capital; the remaining 90% of a bank’s assets is derived from external funds. Bankers have a social obligation to manage such funds responsibly.

In the wake of the financial crisis, more rules and regulations are being introduced to improve corporate governance and risk management. But the battle to win back public confidence ultimately lies on the shoulders of all of us.

In Chinese we have this saying, “if the main beam is not straight, the supporting beams would be crooked”. As leaders of the banking sector, we must lead by example.

It is my hope that the leaders of the banking fraternity will revive the high moral and ethical standards that once distinguished this sector of the economy. If we can focus on long-term interest rather than short-term benefits, refrain from solely thinking of personal gain and instead give greater attention to improving the bank’s reputation as well as contributing towards market efficiency and a stable economy, I believe that the best is yet to be for bankers in the Asia Pacific and the rest of the world.

*These comments are excerpted from Wee Cho Yaw’s speech at The Asian Banker Summit, May 10th, 2009*



compared with 52.1% to 96.8% two years earlier. But when it comes to comparing CEO pay with whole-bank figures, a picture of inequality is revealed: in terms of CEO remuneration as a percentage of net profits, banks in Hong Kong top the list with four of the top five spots, led by Bank of East Asia's David Li, as well as perennial bottom-line chewers in Australia such as Bank of Queensland, and Bendigo and Adelaide Bank (positions 9 and 10 respectively in our 2009 ranking, and positions 3 and 2 in 2007).

For at least one of those banks, however, remuneration is a particularly contentious issue: Li, whose bank had severely reduced profits in 2008 due to writing down its entire CDO portfolio of approximately \$183 million, was nevertheless the fifth-highest paid CEO in the ranking (up from 12<sup>th</sup> in 2007), taking home 85.9% of the bank's total net profits. Li's pay was 121.4% of average staff remuneration (number two in the list), up from only 95.4% in 2007 (when he was number three).

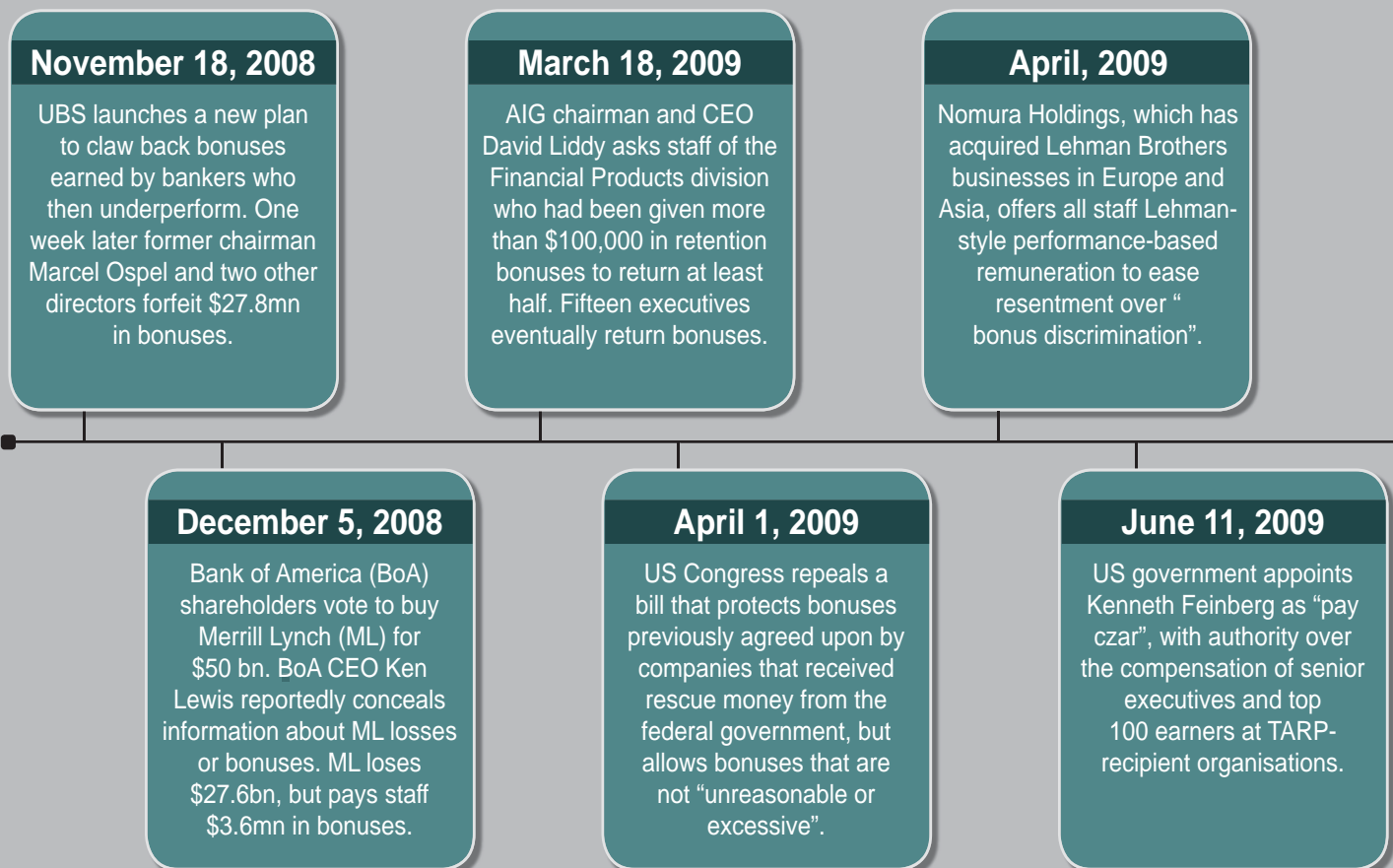
Hong Kong banks like Li's also figure prominently in the ranking of CEO remuneration as a percentage of total bank

expenses for salary and benefits, taking half of the spots in the top ten. But the scale has come down—while the top ten had ranged from 1% to 4.8% in 2007, this has come down at the top end to only the 2.16% enjoyed by Affin Bank's CEO Abdul Hamidy bin Abdul Hafiz.

In terms of CEO remuneration as a multiple of average employee salary and benefits, there are actually more Australian banks in the top 10 than in 2007, led by ANZ's Mike Smith, who was a star hire when the bank poached him that year from HSBC, where he headed the bank's gigantic Asia franchise. But for other new CEOs, figures have adjusted—UOB CEO Wee Ee Cheong only earns 102 times average staff expenses, less than half of what his father Wee Cho Yaw took in 2007 when he was running the bank.

But overall remuneration has come down: while the top 50 executives were given packages ranging from \$60,000 to nearly \$15 million in 2007, this year the range is \$44,000 to nearly \$9 million. In a difficult year, it is understandable that CEO pay will come down, especially for the six bankers who

## Timeline: one year of compensation controversy



rely on performance for more than 75% of their remuneration. In our 2009 survey, the fifty best-paid CEOs received a total of \$86.25 million, while two years previous they had received \$88.6 million. The difference for the top ten bankers is even greater, however: they received a combined \$50 million in 2009, compared to \$54.4 million in 2007, a drop of 11.3%.

The national composition has altered dramatically in terms of emerging markets, with 14 Chinese banks on the ranking—twice as many as had been on the list in 2007—and seven banks from India, compared to only two in 2007. Malaysian representation remained the same, while the Taiwanese bankers on the list fell to four from 11 in 2007. But as with the previous survey, big doesn't necessarily mean best-paid, and even the president of state-owned ICBC—the most profitable bank in the world in 2008—received a relatively modest \$225,000 in total remuneration. In particular, the CEO of state-owned Maybank earned 5% of his three best-remunerated counterparts at privately-run banks, and less than 10% of his predecessor Amirsham Aziz.

### Transparency still an issue

Although The Asian Banker's ranking of key executive compensations aims to be comprehensive, there is still a lack of transparency in many markets. Japanese, Korean and Thai banks are absent from the ranking, due to the opaqueness of the reporting on their executive compensation. Additionally, Indian banks are only partially transparent, because many of them do not disclose the value of an executive's stock options. Rather than being described clearly in annual reports, the way they would be at peer organisations in the US, UK or Germany, financial institutions in several Asian markets still fail to disclose executive compensation in any significant measure.

Given the difficulties facing banks in other markets, Asia Pacific banks have done relatively well, staying away from scandal, and their executives seem to be modestly paid and relatively sensible about risk-taking. And while performance-based remuneration has taken root strongly, it has not yet produced any disasters, and as long as the markets continue to grow banks will have less need to pile into excessively risky activities. **TAB**

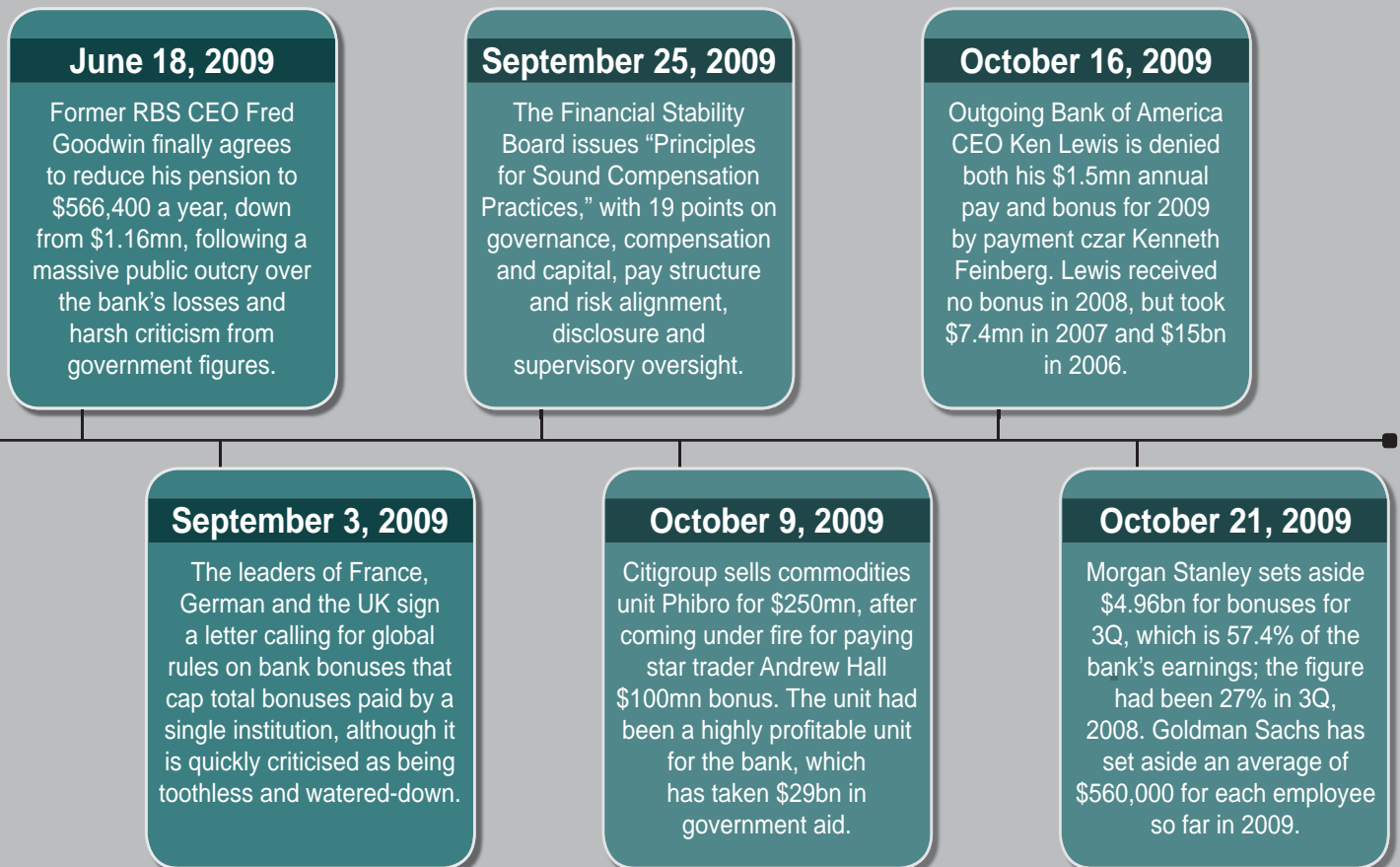


Table compiled by Peter Hoflich

# Listed Banks' CEO Remuneration Ranking

Remuneration Ranking	Bank	Country	CEO	Title	Remuneration		
					Salary & Fee	Retirement Scheme	
1	ANZ	Australia	Michael Smith	Executive Director & CEO	23.1%	N/A	
2	Commonwealth Bank of Australia	Australia	Ralph J Norris	Managing Director & CEO	36.0%	1.2%	
3	Westpac Banking Corporation	Australia	Gail Kelly	Managing Director & CEO	20.9%	0.1%	
4	National Australia Bank	Australia	John Stewart	Executive Director & CEO	32.2%	N/A	
5	Bank of East Asia	Hong Kong	David Li Kwok-po	Chairman & CEO	25.7%	2.4%	
6	Suncorp-Metway	Australia	John Mulcahy	Managing Director & CEO	30.7%	1.6%	
7	Macquarie Group	Australia	Nicholas Moore	Managing Director & CEO	8.4%	N/A	
8	UOB	Singapore	Wee Ee Cheong	Deputy Chairman & CEO	18.9%	N/A	
9	DBS	Singapore	Richard Stanley	CEO	17.0%	N/A	
10	St. George Bank	Australia	Paul Fegan	Managing Director & CEO	39.0%	0.4%	
11	OCBC	Singapore	David Conner	CEO	31.1%	N/A	
12	Hang Seng Bank	Hong Kong	Raymond C F Or	Vice Chairman & CEO	39.5%	5.0%	
13	Shenzhen Development Bank	China	Frank Newman	Chairman & CEO	N/A	N/A	
14	Wing Hang Bank	Hong Kong	Patrick Y B Fung	Chairman & CEO	40.9%	4.5%	
15	Ta Chong Bank	Taiwan	Edmund Koh	President	N/A	N/A	
16	Bendigo and Adelaide Bank	Australia	Robert Hunt	Managing Director & CEO	33.0%	8.5%	
17	Bank of Queensland	Australia	David Liddy	Managing Director & CEO	36.1%	0.5%	
18	Affin Bank	Malaysia	Abdul Hamidy bin Abdul Hafiz	Managing Director & CEO	N/A	N/A	
19	Public Bank	Malaysia	Tay Ah Lek	Managing Director & CEO	22.8%	N/A	
20	Bumiputera-Commerce Holdings	Malaysia	Nazir Razak	Managing Director & CEO	98.1%	N/A	
21	China Minsheng Banking Corporation	China	Wang Tongshi	President & Executive Director	N/A	N/A	
22	RHB Bank	Malaysia	Michael Barrett	Group Managing Director	48.2%	N/A	
23	China Merchants Bank	China	Ma Weihua	Director & President	N/A	N/A	
24	Dah Sing Banking Group	Hong Kong	Derek Hon-Hing Wong	Managing Director & CEO	93.0%	7.0%	
25	Alliance Bank	Malaysia	Bridget Lai	Executive Director & CEO	44.8%	N/A	
26	Fubon Bank	Hong Kong	Jin-yi Lee	Managing Director & CEO	89.5%	4.2%	
27	BOC (Hong Kong) Holdings	Hong Kong	He Guangbei	Vice Chairman & CEO	100.0%	N/A	
28	Chong Hing Bank	Hong Kong	Liu Lit Chi	Managing Director & CEO	95.6%	4.4%	
29	ICICI Bank	India	KV Kamath	Managing Director & CEO	47.8%	7.2%	
30	IndusInd Bank	India	Romesh Sobti	Managing Director & CEO	38.5%	6.4%	
31	HDFC Bank	India	Aditya Puri	Managing Director	41.6%	6.2%	
32	Entie Commercial Bank	Taiwan	Jesse Ding	President	N/A	N/A	
33	Axis Bank	India	PJ Nayak	Chairman & CEO	59.8%	6.0%	
34	Industrial Bank	China	Li Renjie	Director & President	N/A	N/A	
35	Bank of Beijing	China	Yan Xiaoyan	President	N/A	N/A	
36	Hua Xia Bank	China	Wu Jian	Executive Director & President	N/A	N/A	
37	Shanghai Pudong Development Bank	China	Fu Jianhua	President	N/A	N/A	
38	Bank of Communications	China	Li Jun	Vice Chairman & President	N/A	N/A	
39	Far Eastern International Bank	Taiwan	Eli Hong	President	48.6%	N/A	
40	YES BANK	India	Rana Kapoor	Managing Director & CEO	88.5%	11.5%	
41	China Construction Bank	China	Zhang Jianguo	Vice Chairman & President	N/A	N/A	
42	ING Vysya Bank	India	Shailendra Bhandari	Managing Director & CEO	N/A	N/A	
43	Chang Hwa Commercial Bank	Taiwan	Julius Chen	President	N/A	N/A	
44	Bank of China	China	Li Lihui	Vice Chairman & President	35.8%	N/A	
45	Industrial & Commercial Bank of China	China	Yang Kaisheng	Vice Chairman & President	49.5%	N/A	
46	Bank of Ningbo	China	Yu Fengying	Vice Chairman & President	N/A	N/A	
47	Bank of Nanjing	China	Zhang Ning	President	N/A	N/A	
48	Agricultural Bank of China	China	Zhang Yun	President	N/A	N/A	
49	Maybank	Malaysia	Abdul Wahid Omar	President & CEO	N/A	N/A	
50	Bank of Baroda	India	Anil Khandelwal	Chairman & Managing Director	30.7%	N/A	

Notes: • Only bank CEOs or equivalents have been surveyed. • For Michael Smith of ANZ, the total amortization value of his sign-on award was classified as share-based payments. • For Nicholas Moore of Macquarie Group, earnings on the previous year's restricted profit share have been excluded from total remuneration. • For Romesh Sobti of IndusInd Bank, remuneration does not include stock options. Stock Options amounted to 2,000,000 shares at Rs 48 (\$1.11) per share. • Aditya Puri of HDFC was granted 100,000 stock options under the Employee Stock Option Scheme, but the value of the options was not disclosed by the bank. • For PJ Nayak of Axis Bank, variable pay to be paid as decided by the remuneration and nomination

CEO Remuneration Breakdown											Remuneration Ranking
Total Base Remuneration		Total Performance-based Remuneration							Other Unclassified Benefits	Total CEO Remuneration (in US\$)	
Non-Monetary Benefits	(%)	Bonus Awarded	Total Bonus Deferred	(%)	Share Options & Rights	Others Performance-Based	(%)				
0.4%	23.5%	N/A	N/A	N/A	53.6%	18.5%	72.1%	4%	\$8,981,099	1	
N/A	37.2%	21.9%	11.0%	32.9%	29.1%	N/A	62.0%	1%	\$6,001,671	2	
N/A	21.0%	N/A	N/A	26.9%	52.1%	N/A	79.0%	N/A	\$5,916,230	3	
2.2%	34.4%	N/A	N/A	17.9%	47.6%	N/A	65.6%	N/A	\$5,898,228	4	
N/A	28.1%	N/A	N/A	N/A	71.9%	N/A	71.9%	N/A	\$4,322,023	5	
0.0%	32.3%	N/A	N/A	19.4%	45.0%	3.3%	67.7%	N/A	\$4,288,329	6	
N/A	8.4%	N/A	N/A	34.6%	41.6%	15.4%	91.6%	N/A	\$4,247,515	7	
2.0%	20.9%	N/A	N/A	79.1%	N/A	N/A	79.1%	N/A	\$3,821,568 - \$3,995,274	8	
N/A	17.0%	53.0%	N/A	53.0%	27.0%	3.0%	83.0%	N/A	\$3,300,445 - \$3,474,152	9	
0.3%	39.6%	N/A	N/A	34.5%	23.4%	N/A	57.9%	3%	\$2,945,786	10	
N/A	31.1%	N/A	N/A	22.5%	45.3%	N/A	67.8%	1%	\$2,605,614 - \$2,779,321	11	
N/A	44.5%	N/A	N/A	37.7%	17.8%	N/A	55.5%	N/A	\$2,534,641	12	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$2,338,103	13	
N/A	45.4%	N/A	N/A	32.9%	21.7%	N/A	54.6%	N/A	\$2,287,705	14	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$1,507,960 - \$3,015,920	15	
1.7%	43.3%	N/A	N/A	24.9%	23.0%	N/A	47.9%	9%	\$2,022,930	16	
0.3%	36.9%	N/A	N/A	36.8%	25.1%	1.2%	63.1%	N/A	\$1,883,984	17	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$1,806,871	18	
0.8%	23.6%	N/A	N/A	58.1%	N/A	18.3%	76.4%	N/A	\$1,488,164	19	
1.9%	100.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$1,479,503	20	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$1,322,901	21	
5.3%	53.6%	N/A	N/A	46.4%	N/A	N/A	46.4%	N/A	\$1,202,656	22	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$1,154,830	23	
N/A	100.0%	N/A	N/A	N/A	N/A	N/A	0.0%	N/A	\$1,109,534	24	
1.6%	46.4%	N/A	N/A	49.8%	3.8%	N/A	53.6%	N/A	\$983,256	25	
N/A	93.7%	N/A	N/A	6.3%	N/A	N/A	6.3%	N/A	\$820,410	26	
N/A	100.0%	N/A	N/A	N/A	N/A	N/A	0.0%	N/A	\$788,672	27	
N/A	100.0%	N/A	N/A	N/A	N/A	N/A	0.0%	N/A	\$756,677	28	
N/A	55.0%	N/A	N/A	16.2%	N/A	28.8%	45.0%	N/A	\$549,365	29	
N/A	44.9%	N/A	N/A	N/A	N/A	3.2%	3.2%	52%	\$540,803	30	
N/A	47.9%	N/A	N/A	37.6%	N/A	5.0%	42.6%	10%	\$490,926	31	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$482,095	32	
N/A	65.8%	N/A	N/A	14.9%	N/A	5.0%	19.9%	14%	\$431,466	33	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$387,733	34	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$310,186	35	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$308,723	36	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$257,513	37	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$256,167	38	
N/A	48.6%	N/A	N/A	51.4%	N/A	N/A	51.4%	N/A	\$251,407	39	
N/A	100.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$241,358	40	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$228,397	41	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$227,015	42	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$150,796 - \$301,592	43	
N/A	35.8%	N/A	N/A	48.4%	N/A	15.8%	64.2%	N/A	\$225,909	44	
N/A	49.5%	N/A	N/A	41.8%	N/A	8.6%	50.4%	N/A	\$224,593	45	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$222,837	46	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$186,697	47	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$168,510	48	
2.0%	2.0%	N/A	N/A	N/A	N/A	80.3%	80.3%	18%	\$64,694	49	
N/A	30.7%	N/A	N/A	N/A	N/A	69.3%	69.3%	N/A	\$44,648	50	

committee/board of directors is subject to a maximum of 25% of salary per year. • For Rana Kapoor of YES BANK, bonus was not disclosed by the bank, nor was the value of non-monetary benefits • bank CEOs who have stepped down from their positions or retired include John Mulcahy of Suncorp-Metway (position 6), Paul Fegan of St George Bank (position 10), Raymond C F Or of Hang Seng Bank (position 12), Robert Hunt of Bendigo and Adelaide Bank (position 16), KV Kamath (position 29), PJ Nayak of Axis Bank (position 33) and Anil Khandelwal of Bank of Baroda (position 50) • Richard Stanley, CEO of DBS, passed away on April 11th, 2009.

Data collected by Asian Banker Research

## Top Gamblers

Performance-based Remuneration as % of Total Remuneration

Remuneration Ranking	Bank	Country	CEO	Performance-based Remuneration as % of Total Remuneration	Performance-based Remuneration Ranking
7	Macquarie Group	Australia	Nicholas Moore	91.6%	1
9	DBS	Singapore	Richard Stanley	83.0%	2
49	Maybank	Malaysia	Abdul Wahid Omar	80.3%	3
8	UOB	Singapore	Wee Ee Cheong	79.1%	4
3	Westpac Banking Corporation	Australia	Gail Kelly	79.0%	5
19	Public Bank	Malaysia	Tay Ah Lek	76.4%	6
1	ANZ	Australia	Michael Smith	72.1%	7
5	Bank of East Asia	Hong Kong	David Li Kwok-po	71.9%	8
50	Bank of Baroda	India	Anil Khandelwal	69.3%	9
11	OCBC	Singapore	David Conner	67.8%	10
6	Suncorp-Metway	Australia	John Mulcahy	67.7%	11
4	National Australia Bank	Australia	John Stewart	65.6%	12
44	Bank of China	China	Li Lihui	64.2%	13
17	Bank of Queensland	Australia	David Liddy	63.1%	14
2	Commonwealth Bank of Australia	Australia	Ralph J Norris	62.0%	15
10	St. George Bank	Australia	Paul Fegan	57.9%	16
12	Hang Seng Bank	Hong Kong	Raymond C F Or	55.5%	17
14	Wing Hang Bank	Hong Kong	Patrick Y B Fung	54.6%	18
25	Alliance Bank	Malaysia	Bridget Lai	53.6%	19
39	Far Eastern International Bank	Taiwan	Eli Hong	51.4%	20

## Top Bottom-Line Chewers

CEO Remuneration as % of Net Profits

Remuneration Ranking	Bank	Country	CEO	Title	CEO Remuneration as % of Bank Net Profit	CEO Remuneration as % of Bank Net Profit Ranking
1	Bank of East Asia	Hong Kong	David Li Kwok-po	Chairman & CEO	85.90%	1
2	Ta Chong Bank	Taiwan	Edmund Koh	President	47.4 - 94.8%	2
3	Chong Hing Bank	Hong Kong	Liu Lit Chi	Managing Director & CEO	9.68%	3
4	Fubon Bank	Hong Kong	Jin-yi Lee	Managing Director & CEO	6.30%	4
5	Dah Sing Banking Group	Hong Kong	Derek Hon-Hing Wong	Managing Director & CEO	4.56%	5
6	IndusInd Bank	India	Romesh Sobti	Managing Director & CEO	2.84%	6
7	Shenzhen Development Bank	China	Frank Newman	Chairman & CEO	2.60%	7
8	Affin Bank	Malaysia	Abdul Hamidy bin Abdul Hafiz	Managing Director & CEO	2.36%	8
9	Bank of Queensland	Australia	David Liddy	Managing Director & CEO	2.14%	9
10	Bendigo and Adelaide Bank	Australia	Robert Hunt	Managing Director & CEO	1.85%	10
11	Wing Hang Bank	Hong Kong	Patrick Y B Fung	Chairman & CEO	1.53%	11
12	Suncorp-Metway	Australia	John Mulcahy	Managing Director & CEO	1.43%	12
13	Alliance Bank	Malaysia	Bridget Lai	Executive Director & CEO	0.94%	13
14	ING Vysya Bank	India	Shailendra Bhandari	Managing Director & CEO	0.58%	14
15	YES BANK	India	Rana Kapoor	Managing Director & CEO	0.49%	15
16	Macquarie Group	Australia	Nicholas Moore	Managing Director & CEO	0.45%	16
17	RHB Bank	Malaysia	Michael Barrett	Group Managing Director	0.41%	17
18	ANZ	Australia	Michael Smith	Executive Director & CEO	0.39%	18
19	UOB	Singapore	Wee Ee Cheong	Deputy Chairman & CEO	0.3 - 0.3%	19
20	Bumiputera-Commerce Holdings	Malaysia	Nazir Razak	Managing Director & CEO	0.24%	20

## Top Overhead Blowers

CEO Remuneration as % of Total Salary & Benefits Expense

Remuneration Ranking	Bank	Country	CEO	Title	CEO Remuneration as % of Total Salary & Benefits Expense	CEO Remuneration as % of Bank Total Salary & Benefits Expense
18	Affin Bank	Malaysia	Abdul Hamidy bin Abdul Hafiz	Managing Director & CEO	2.16%	1
30	IndusInd Bank	India	Romesh Sobti	Managing Director & CEO	2.14%	2
17	Bank of Queensland	Australia	David Liddy	Managing Director & CEO	2.12%	3
14	Wing Hang Bank	Hong Kong	Patrick Y B Fung	Chairman & CEO	1.91%	4
28	Chong Hing Bank	Hong Kong	Liu Lit Chi	Managing Director & CEO	1.38%	5
24	Dah Sing Banking Group	Hong Kong	Derek Hon-Hing Wong	Managing Director & CEO	1.27%	6
26	Fubon Bank	Hong Kong	Jin-yi Lee	Managing Director & CEO	1.22%	7
16	Bendigo and Adelaide Bank	Australia	Robert Hunt	Managing Director & CEO	1.14%	8
5	Bank of East Asia	Hong Kong	David Li Kwok-po	Chairman & CEO	1.12%	9
25	Alliance Bank	Malaysia	Bridget Lai	Executive Director & CEO	1.01%	10
13	Shenzhen Development Bank	China	Frank Newman	Chairman & CEO	0.60%	11
40	YES BANK	India	Rana Kapoor	Managing Director & CEO	0.58%	12
12	Hang Seng Bank	Hong Kong	Raymond C F Or	Vice Chairman & CEO	0.57%	13
8	UOB	Singapore	Wee Ee Cheong	Deputy Chairman & CEO	0.5 - 0.5%	14
19	Public Bank	Malaysia	Tay Ah Lek	Managing Director & CEO	0.49%	15
22	RHB Bank	Malaysia	Michael Barrett	Group Managing Director	0.47%	16
1	ANZ	Australia	Michael Smith	Executive Director & CEO	0.40%	17
6	Suncorp-Metway	Australia	John Mulcahy	Managing Director & CEO	0.40%	18
9	DBS	Singapore	Richard Stanley	CEO	0.4 - 0.4%	19
11	OCBC	Singapore	David Conner	CEO	0.4 - 0.4%	20

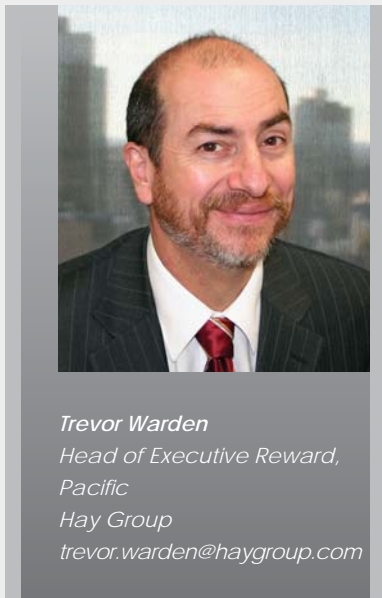
## Top Inequality Creators

CEO Remuneration / Average Staff Expense

Remuneration Ranking	Bank	Country	CEO	Title	CEO Remuneration / Average Employee Salary and Benefits	CEO Remuneration / Average Staff Expense Ranking
1	ANZ	Australia	Michael Smith	Executive Director & CEO	146.8	1
5	Bank of East Asia	Hong Kong	David Li Kwok-po	Chairman & CEO	121.4	2
8	UOB	Singapore	Wee Ee Cheong	Deputy Chairman & CEO	102.2 - 106.8	3
2	Commonwealth Bank of Australia	Australia	Ralph J Norris	Managing Director & CEO	93.8	4
20	Bumiputera-Commerce Holdings	Malaysia	Nazir Razak	Managing Director & CEO	83.1	5
3	Westpac Banking Corporation	Australia	Gail Kelly	Managing Director & CEO	82.9	6
4	National Australia Bank	Australia	John Stewart	Executive Director & CEO	81.7	7
18	Affin Bank	Malaysia	Abdul Hamidy bin Abdul Hafiz	Managing Director & CEO	81.5	8
19	Public Bank	Malaysia	Tay Ah Lek	Managing Director & CEO	78.5	9
13	Shenzhen Development Bank	China	Frank Newman	Chairman & CEO	61.8	10
30	IndusInd Bank	India	Romesh Sobti	Managing Director & CEO	61.4	11
12	Hang Seng Bank	Hong Kong	Raymond C F Or	Vice Chairman & CEO	55.6	12
22	RHB Bank	Malaysia	Michael Barrett	Group Managing Director	48.7	13
9	DBS	Singapore	Richard Stanley	CEO	47.1 - 49.6	14
29	ICICI Bank	India	KV Kamath	Managing Director & CEO	42.0	15
16	Bendigo and Adelaide Bank	Australia	Robert Hunt	Managing Director & CEO	39.6	16
11	OCBC	Singapore	David Conner	CEO	38.0 - 40.5	17
31	HDFC Bank	India	Aditya Puri	Managing Director	39.1	18
25	Alliance Bank	Malaysia	Bridget Lai	Executive Director & CEO	37.0	19
6	Suncorp-Metway	Australia	John Mulcahy	Managing Director & CEO	35.2	20

## Cracking the code: Incentivising long-term performance

**Banks are looking for an answer to the million dollar question: How to match the company's risk with the leader's reward**



One year into the global financial crisis, very little has changed. According to media reports, banks are apparently still setting aside millions for bonuses and compensation, despite large second-quarter operating losses. Global leaders have been rallying against these types of perceived lack of governance and appear to be focussing on the issue of risk versus reward.

Fortunately banks and financial institutions in Asia Pacific are in good shape compared to their global counterparts, and astronomical compensation is not the practice.

According to Trevor Warden, Hay Group's Head of Executive Reward, Pacific, "A number of the major banks in Asia Pacific have been—or are—currently led by overseas executives, so the executive talent market for banks here can certainly be viewed as global in nature. All of the big four Australian banks currently reward at broadly similar approaches in terms of fixed remuneration, short and long term incentive mix. Generally, good governance of remuneration in the Australian banking sector has led to executive remuneration packages being fairly well balanced generally and not acting as a lever for the banks to take on more risk."

Nonetheless, banks do face a real issue of trust and perception following the credit crunch, especially in the eyes of corporate clients, and restoring trust means aligning board governance, risk management and executive pay.

### Striking a balance

While the focus of general compensation programmes typically centres on downside risks—the probability and consequence of failure—executive compensation programmes historically have focused on the upside only. But compensation committees must create an appropriate balance between risk and reward—and not maximize both.

Unlike the US and Europe where 'star CEOs' reign supreme, management structures in Asia are more likely to centre on the top teams. "We constantly advise companies against placing their bets on leaders who sweep in to lead the organization single-handedly to greatness. Effective CEOs need to rely on teams of proven leaders to coordinate and consult in order to make decisions," said Sylvano Damanik, Hay Group's Head of Executive Reward, Asia. So the real issue in Asia is not just the CEO's pay, but the top team's pay.

Many blame excessive executive pay and bonuses for the financial meltdown. We disagree. Pay structures did what they were meant to do: reward management for reaching or exceeding goals. The real problem lies in the business strategies and the goals themselves.

We propose the following guidelines on top team reward:

- **Review your executive compensation strategy**

Executive compensation strategy needs to be tailored to your specific industry as well as your own company's unique operating model within that industry.



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- **Understand the intangibles**

Beyond the obvious profit-and-loss statements, look for the behaviour and business decisions that can create sustainable and long-term value for investors.

- **Have multi-faceted performance measures**

A mix of short-, mid- and long-term performance measures that tie executive pay to performance are total shareholder return (TSR) and economic profit (EP). TSR may help established companies with clear, mature industry competitors, especially in cyclical industries, while EP is superior to other metrics like earnings per share (EPS) and earnings before interest, tax, depreciation and amortisation (Ebitda), since these do not consider risk and the cost of capital.

## **Board governance**

As Asia-Pacific banks continue from their position of strength, boards need to ensure that their business models continue to be based on true-value creation, not risk laundering. Institutions need to concentrate on ensuring that their risk and audit board committees are fully involved in the development, monitoring and exception handling of business policies. They also need to take part in designing the mandate of their top teams and building the team's incentives and remuneration. Questions that boards can ask themselves include:

1. Is there balance between short-term and long-term goals? A common trap for CEO or board pay is often an over-emphasis on the achievement of short-term objectives like profit.
2. Does the compensation committee understand all potential scenarios? Detailed analysis of executive compensation plans (severance and change-in-control payments, as well as incentives) are needed to understand the possible behaviours and business decisions that would trigger large payouts, such as risky acquisitions that promote top line 'growth' at the expense of returns.
3. Is there too much weight on one metric? Good plan design suggests that metrics be balanced.
4. Conversely, are the plans diluted with too many metrics? Is there a risk that the plans are so intricate that they can't provide strategic direction?
5. Is the 'leverage' in executive compensation reasonable? While there may be reasons for award opportunity in some cases, recent events have demonstrated the need for compensation committees to evaluate the risk of promoting excessive and risky business activities.
6. Are controls in place to mitigate risk in executive compensation? Checks and balances to consider include:
  - clawbacks for payments in prior years that ultimately were shown to have been un-earned, or based on financials that had to be restated
  - multi-year performance periods rather than excessive focus on short-term gains
  - holding requirements on shares/meaningful ownership guidelines
  - caps on upside to limit the potential for unexpected or windfall payouts

## **Making a real difference**

Top team pay has a real effect on corporate performance. Doing what everyone else is doing is not a strategy. Executive compensation programs should be a competitive differentiator, and this can only be achieved if it is fit-for-purpose to your bank's value proposition.

*Hay Group's Sylvano Damanik, Trevor Warden, Roland Ruiz, Tan Juan Jim, Mana Lohatepanont, Reena Wahi and Malcolm Liu contributed to this article.*

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