

INSTRUCTION ON REMUNERATION OF MEMBERS OF THE GOVERNING BOARD AND OF SENIOR MANAGEMENT OF NEWLY LICENSED BANKS

I. AUTHORITY

This instruction is issued by the Central Payments Office of East Timor (hereinafter, “CPO”) pursuant to Section 16.4 of *Regulation No. 2000/8 on Bank Licensing and Supervision of the United Nations Transitional Administration in East Timor* (hereinafter, the “Regulation”).

II. APPLICABILITY

This instruction applies to all banks organized in East Timor.

III. DEFINITIONS

- A. Members of the Governing Board** mean persons who are members of the single highest governing body of the bank responsible for establishing the policies for the operations of the bank and for supervising their implementation.
- B. Remuneration** means payment (either cash or non-cash) for work performed on behalf of the bank.
- C. Senior Management** means a core group of officers responsible for the bank. For purposes of this instruction, senior management shall be deemed to include the following administrators: President, Vice President(s), Chief Accountant, Chief Lending Officer, Chief Financial Officer, Chief Auditor, other department heads, and other administrators holding similar level positions within the bank.

IV. REQUIREMENTS

- A.** The CPO’s approval of an application for bank license shall be deemed to be approval of the remuneration of the members of the Governing Board and of senior management for the first three years of the bank’s operations as presented in the application for bank license, unless otherwise indicated by the CPO in its preliminary approval.
- B.** All changes made to the remuneration of the members of the Governing Board and senior management from the information presented in the application for bank license shall require the written approval of the CPO prior to their implementation.

V. PROCESS FOR OBTAINING CPO APPROVAL

In order to receive the CPO's approval pursuant to Section IV.B. of this instruction, the bank shall submit the following information to the CPO:

- A. For members of the Governing Board: A certified copy of the decision taken by the general meeting of shareholders of the bank on the remuneration of the members of the Governing Board.
- B. For senior management officials: A certified copy of the decision taken by the Governing Board of the bank on the remuneration of the senior management official.
- C. The decisions required by A and B above shall include:
 1. identification of the person(s) affected by the proposed change;
 2. the proposed change to the remuneration;
 3. the total remuneration for the person(s) both before and after the proposed change is made;
 4. the specific reason(s) for the proposed change in remuneration;
 5. a summary of the results of the bank's analysis of the impact that the change will have on the financial performance and condition of the bank; and
 6. the date that the proposed change in remuneration will be effective, which in no event shall be prior to the bank's receipt of the written approval of the CPO.
- D. Within 30 days from the date that the CPO receives a written request from a bank accompanied by all required information and sufficient for making a decision, the CPO shall either approve or deny the change in remuneration and shall notify the bank of its decision in writing.
- E. The CPO shall grant approval for the proposed change in remuneration unless it makes one or more of the following findings.
 1. For members of the Governing Board and senior management:
 - False, misleading, or incomplete information was submitted.
 - The proposed remuneration includes the ability to acquire a separate class of stock in the bank with greater voting rights than are available to other investors.
 - The proposed remuneration includes the ability to acquire stock in the bank at an original issue price lower than that paid by other investors.
 - The proposed remuneration includes warrants for bank stock which (1) have an exercise price below the original issue price; (2) are not subject to an exercise or forfeit provision that will be triggered if the bank's capital falls below the minimum

amount required by the CPO's *Instruction on Regulatory Capital*; or (3) have a term exceeding 10 years.

- The proposed change in remuneration is expected to adversely affect the bank's future earnings prospects or financial condition.
- The proposed change in remuneration is not in line with the person's experience and competence.
- The proposed remuneration includes a tie-in to a transaction with the bank which has terms not available to the general public or that otherwise violate the CPO's *Instruction on Transactions with Related Persons, Related Banks and Financial Institutions, and Affiliates*.
- There are other supervisory concerns with the proposed remuneration.

2. For members of the Governing Board:

- The proposed remuneration is not based on meetings attended.
- The proposed remuneration exceeds the salary of the senior management of the bank.
- The proposed remuneration includes provisions for bonuses.

3. For senior management officials:

- The proposed change in remuneration is based on a proposed employment contract which does not contain a clause providing for termination for just cause.
- The proposed remuneration is not in line with remuneration paid to persons in similar positions with similar qualifications at banks engaging in similar financial activities.
- The proposed remuneration includes incentive compensations which are not linked to the bank's long-term business strategy and the overall financial condition of the bank, but rather are linked to volume, short-term performance or profitability, or excessive risk-taking.