

## Disclosure of the remuneration system of Public Finance Limited (the “Company”) for the year 2014

### Remuneration Committee

The Company has established its Remuneration Committee with written terms of reference with effect from 1 January 2011 in compliance with the requirements of the Supervisory Policy Manual Module CG-5 on “Guideline on a Sound Remuneration System” (the “Remuneration Guideline”) issued by the Hong Kong Monetary Authority (the “HKMA”). As at 31 December 2014, there were five members in the Remuneration Committee and four of them were Independent Non-Executive Directors. The Remuneration Committee was chaired by Tan Sri Datuk Seri Utama Thong Yaw Hong, the independent Non-Executive Co-Chairman of the Company. The other members were Mr. Quah Poh Keat, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Lai Wan.

The Remuneration Committee meets at least once a year to review and make recommendations to the board of directors (the “Board”) of the Company on the overall remuneration policy (the “Remuneration Policy”), specific remuneration packages and compensation arrangement relating to the termination of their office or appointment of Directors, Chief Executive, senior management and key personnel, and for the formulation of the remuneration policy applicable to all employees of the Company and its subsidiaries (the “Group”).

A meeting was held in 2014. The attendance of each member in 2014 is set out below:

Name of members	Number of meetings attended in 2014	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, Chairman	1/1	100%
Tan Sri Dato’ Sri Tay Ah Lek (resigned on 21 April 2014)	1/1	100%
Mr. Quah Poh Keat	1/1	100%
Mr. Lee Chin Guan	1/1	100%
Mr. Tang Wing Chew (appointed on 1 March 2014)	1/1	100%
Mr. Lai Wan (appointed on 1 March 2014)	1/1	100%

During the year, Directors’ fees, movement of senior officials, succession plan for senior management positions, 2014 annual salary review, allocation of discretionary bonus and annual review of the remuneration policy and system in compliance with the Remuneration Guideline of the HKMA were reviewed and noted.

Remuneration of the Directors, Chief Executive, senior management and key personnel is determined by reference to factors including the level of workload, responsibilities and commitments, performance and remuneration packages. No individual Director or any of his associate is involved in deciding his own remuneration.

The scales of Directors’ fees of the Company for 2014 and 2013 are outlined as follows:

	2014 Range	2013 Range
Chairman/Co-Chairman	HK\$60,000 – HK\$102,500	HK\$60,000 – HK\$102,500
Other Directors	HK\$25,000 – HK\$50,000	HK\$25,000 – HK\$92,500

No remuneration was paid to members of the Remuneration Committee for 2014 and 2013 except the aforesaid Directors’ fees.

## **Design and structure of the remuneration processes**

The Board of the Company oversees the formulation, maintenance and implementation of the Remuneration Policy.

The Remuneration Committee of the Company reviews and recommends the remuneration packages of key senior management personnel of the Group in accordance with the authorities and responsibilities as stipulated in its terms of reference to the Board of the Company for approval.

The Remuneration Committee of the Company also works closely with the Human Resources Committee, Audit Committee and other dedicated committees and departments to (i) review if there are any material non-compliance issues in relation to internal policy and statutory requirements and make adjustments to payments of remuneration whenever necessary, and (ii) decide upon the appraisal system which fairly measures the performance of each key personnel, and make changes to the system when necessary to meet the changing needs of the Company.

Remuneration review is submitted to the Board of the Company by the Remuneration Committee for approval each year.

Regular compliance monitoring is imposed to review the management and operation of the remuneration system.

Personnel Department continues to take initiatives on all human resources matters while Human Resources Committee continues to function in accordance with its terms of reference.

Discussions and recommendations related to employees at managerial level made in the meetings of Human Resources Committee are submitted to the Group Human Resources Committee of Public Bank Berhad, the ultimate holding company of the Company, and where appropriate, to the Remuneration Committee of the Company for endorsement while discussions and decisions related to non-managerial employees made in the meetings are normally noted in the Board Executive Committee of the Company.

## **The Remuneration Policy of the Group**

The Company adopted the Remuneration Policy in compliance with the Remuneration Guideline in December 2010. The Remuneration Policy covers the Company and its subsidiaries which are subject to the HKMA's consolidated supervision. The Remuneration Policy was initiated by the Human Resources Committee and approved by the Board. The Human Resources Committee also reviews and keeps abreast of the legal and regulatory requirements from time to time, and liaises with risk control units including risk management, financial management and compliance functions to strike a balance among sufficient staff motivation, sound remuneration packages and prudent risk management. Any findings and recommendations to be incorporated into the Remuneration Policy will be put forth to the Remuneration Committee for consideration. Having discussed and agreed upon at the Remuneration Committee, the revisions to the Remuneration Policy would be recommended to the Board for approval.

The Company's Remuneration Policy encourages employee behavior that supports the Company's risk tolerance, risk management framework and long-term financial soundness. The policy is established and implemented in line with the objectives, business strategies and long-term goals of the Company and formulated in a way that will not encourage excessive risks taking by employees but allows the Company to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions. The Company has considered the risks, including market risk, credit risk, liquidity risk and operational risk, when implementing the remuneration measures, which are closely monitored by various management committees and working groups. The Company considers and reviews the audit reports and various kinds of performance reports to take account of these risks in the remuneration process. Audit reports cover information on asset quality, credit risk management and operational risk management whilst performance reports state various kinds of business performance indicators such as delinquent rate, net impairment ratio, customer deposit, business growth, etc., which are useful for identification of current and future risks. The employees' performances in controlling these current and future risks are linked with their remuneration rewards. The Board will take the overall performance of the Group, risk management, market trends, and other non-financial measures when deciding the performance bonus pool. This will be adjusted as and when the Company considers appropriate. There is no change of remuneration measures over the past year.

Basically, the remuneration package consists of fixed and variable remuneration which are offered in cash. Fixed remuneration refers to basic salary, the year end double pay, and other fixed income while variable remuneration refers to discretionary bonus, sales commission and other variable income. The remuneration packages are determined by taking into consideration the evaluation of the job's responsibilities and contribution, the market pay levels for benchmark positions, and employee's performance. The level of remuneration and the proportion of variable remuneration to fixed remuneration of senior management and key personnel are linked to their level of responsibility undertaken and contribution to business performance and enhancements of efficiency and effectiveness of operations.

When the amount of variable remuneration payout exceeds a predetermined percentage or amount of the annual fixed remuneration of the employee, a deferment period of 3 years will be imposed in order to align the incentive awards to be granted to an individual employee with the long-term value creation and the time horizons of risk. The deferred remuneration will be vested gradually over the 3-year deferment period and no faster than on a pro-rata basis. To conform to the spirit of the Remuneration Guideline and not to undermine the risk management advantage by applying deferment of variable remuneration, if there is any deferred remuneration, hedging exposures in respect of the unvested portion of deferred remuneration by any trading, investment or other financial activities will be restricted.

Subject to the decision of the Remuneration Committee in accordance with the internal guidelines, the deferred remuneration will be forfeited and/or clawed back when it is later established that the data on which the performance measurement for a particular year was based is subsequently proven to have been manifestly misstated; or it is later established that the employee concerned has committed fraud or other malfeasance, or violated any legislation, code or internal control policies of the Group; or there has been a significant downward restatement of the financial performance of the Group; or the employment of the employee is terminated.

The award of variable remuneration to the senior management, key personnel and risk taking employees is subject to the aforesaid deferral mechanism which will be reviewed by the Remuneration Committee at least annually and subject to change when necessary.

The remuneration of the employees within the risk control function, including those performing accounts, audit, compliance and credit management functions, etc., is determined by the performance of individual employees and is independent of the business they oversee. The performance factors of the appraisees in carrying out their core job responsibilities under their respective job functions are assessed in the performance appraisals. Appropriate remuneration will be recommended based on the results of the appraisals annually.

The Company uses a comprehensive performance measurement framework that incorporates both financial and non-financial performance in determining the size and allocation of variable remuneration. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Company as a whole, and the contribution of business units or departments and an individual employee to the Company as well. The applicable and material risks associated with the activities of employees, the cost and quantity of capital required to support the risks taken, and the cost and quantity of liquidity risk in the conduct of business are also taken into consideration. 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 effectiveness and efficiency of supporting operations. Given the importance in both financial achievements and non-financial factors, poor performance will result in reduction of or elimination to the variable remuneration. Adverse performance in non-financial factors will override outstanding financial achievement, and thus, the employee’s performance can be assessed comprehensively

**Annual review of remuneration system and policy**

An annual review of the remuneration system and the Remuneration Policy of the Group was conducted by the Remuneration Committee at the end of 2014. The review concludes that the remuneration system and the Remuneration Policy are consistent with the principles set out in the Remuneration Guideline.

**Remuneration of senior management and key personnel**

The aggregate quantitative information on remuneration for the Group’s senior management (including the Company’s Executive Director who also holds the position of Chief Executive) and key personnel is set out below.

- (i) The amount of remuneration for the financial years 2014 and 2013, split into fixed and variable remuneration and paid in cash, and number of beneficiaries were:

2014

Remuneration for senior management \*:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	Deferred	
HK\$5,809,188	Nil	HK\$1,548,757	Nil	5

\* Senior management includes General Manager/Chief Executive, Alternative Chief Executive, Assistant General Manager, Dealing Director and Information Technology Controller

Remuneration for key personnel#:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	Deferred	
HK\$6,408,691	Nil	HK\$1,304,949	Nil	11

# Key personnel comprises individual employees whose duties or activities in the course of employment involve the assumption of material risk or the taking on material exposures on behalf of the Group, and the key personnel within risk control functions

2013

Remuneration for senior management\*:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	Deferred	
HK\$5,579,958	Nil	HK\$1,526,965	Nil	5

\* Senior management includes General Manager/Chief Executive, Alternative Chief Executive, Assistant General Manager, Dealing Director and Information Technology Controller

Remuneration for key personnel#:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	Deferred	
HK\$6,347,544	Nil	HK\$1,571,669	Nil	11

# Key personnel comprises individual employees whose duties or activities in the course of employment involve the assumption of material risk or the taking on material exposures on behalf of the Group, and the key personnel within risk control functions

- (ii) The amount of variable remuneration for the financial years 2014 and 2013 was paid in cash. No variable remuneration in shares or share-linked instruments was granted.
- (iii) There was no deferred remuneration awarded, paid out and reduced through performance adjustments and there was no outstanding deferred remuneration during the financial years 2014 and 2013.
- (iv) No senior management or key personnel had been awarded new sign-on or severance payments or paid guaranteed bonuses during the financial years 2014 and 2013.

31 March 2015